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Monterey, California



THESIS

VENEZUELA'S CHANGING FOREIGN POLICY TOWARDS
THE UNITED STATES: A HOLISTIC ANALYSIS

by

Matthew David Turner

December 2001

Thesis Advisor: Harold A. Trinkunas
Co-Advisor: Jeffrey W. Knopf

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**VENEZUELA'S CHANGING FOREIGN POLICY TOWARDS THE UNITED
STATES: A HOLISTIC ANALYSIS**

Matthew David Turner
Lieutenant, United States Navy
B.A., University of Utah, 1995

Submitted in partial fulfillment of the
requirements for the degree of

MASTER OF ARTS IN NATIONAL SECURITY AFFAIRS

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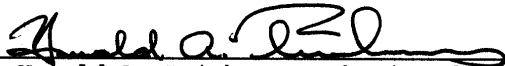
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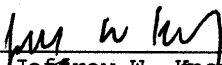


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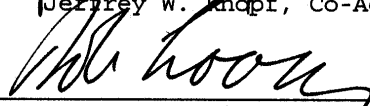
Approved by:



Harold A. Trinkunas, Thesis Advisor



Jeffrey W. Knopf, Co-Advisor



James J. Wirtz, Chairman
Department of National Security Affairs

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ABSTRACT

This thesis analyzes the changing relationship between the United States and Venezuela since 1980. In the last five years this relationship has become increasingly strained. The thesis takes a holistic approach and looks at international, domestic, and individual levels of analysis to determine the causal factors in Venezuela's shifting foreign policy. The findings suggest that the new international environment and Venezuela's petroleum reserves create the ability for Venezuela to slow integration with the United States. Domestic factors explain this approach as an attempt to protect different interest groups. At the individual level, President Chávez is a headline grabber but is not a significant source of bilateral tensions. The findings indicate that the new international environment and Venezuelan political and economic culture are the important variables in explaining Venezuela's relationship with the United States.

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EXECUTIVE SUMMARY

This thesis examines the changing relationship between the United States and Venezuela over the last two decades. In the last five years this relationship has become increasingly strained as Venezuela reduced its focus on its neighbor to the north. The thesis hypothesizes four explanations for this change: 1) A new post-Cold War international system. 2) Antagonism produced by unpopular U.S. policies towards Venezuela. 3) Domestic issues within Venezuela. 4) President Chávez's leftist leanings and anti-U.S. rhetoric. As a single case study, this thesis examines the above four causal factors (independent variables) to determine the extent they drive Venezuela's changing foreign policy towards the United States (dependent variable). International, domestic, and individual levels of analysis will be used to explain the changing relationship. By using an international relations approach the thesis will identify which variables have explanatory power in this case.

The key findings in this project are that the end of the Cold War and the rejection of the Washington consensus have contributed to Venezuela's de-emphasis on the United States. At the domestic level, a pact democracy and oil led development have also played an important role in distancing Venezuela from the United States in this new environment. At the individual level, President Chavez is an irritant to U.S. interests and an added cause to the distancing in relations but not the main cause.

The root causes for the distancing are the fundamental changes at the international level and the impact this has had in Venezuelan domestic politics and economics. Further integration with the U.S. threatens domestic interest groups in Venezuela so other areas of the world are being looked to for integration. This "threat" may or may not persist. Washington must not attribute the shifts in the current relationship to President Chávez. A "do nothing" approach is currently the best policy for the United States to pursue with Venezuela as long as Venezuelan foreign policy does not threaten vital U.S. interests.

I. INTRODUCTION

A. OBJECTIVE

This thesis examines the changing relationship between the United States and Venezuela over the last twenty years. Over the last decade, Venezuela has shifted its primary focus away from the United States. The thesis hypothesizes four possible explanations for this change: 1) A new post-Cold War international system. 2) Unpopular U.S. policies towards Venezuela. 3) Domestic issues within Venezuela. 4) President Chávez's leftist leanings and anti-U.S. rhetoric. International, domestic, and individual levels of analysis will be examined to explain the changing relationship. By using an international relations approach the thesis will identify which variables have more explanatory power in this case.

Finding out the driving factors behind Venezuela's reasons for pursuing this new strategy is important for policy makers in both countries. For example, if it is found that the problems between the countries are due to bad U.S. policies then this can be remedied. However, if the difficulties are due to the new international system then the distancing between the two countries would be expected. If domestic politics is the driving factor other policy solutions could be used to improve relations. If Chávez is the problem, the solution would be to just wait until a new president comes to power.

B. BACKGROUND

Venezuela was a staunch backer of the United States throughout the 1950s and 1960s. From 1970 on Venezuela

took a more independent foreign policy stance but remained closely linked to the United States on issues important to Washington (stable oil supplier and Cold War ally). Venezuela never participated in an OPEC sponsored oil embargo against the United States. Likewise, the United States never punished Venezuela with intervention or sanctions.

In the latter half of the 1990s, Venezuela's foreign policy shifted away from its primary orientation towards the United States. This shift has diminished the emphasis on bilateral cooperation in such areas as military cooperation, economics, counterdrug efforts, and other issues of common concern. Venezuela's new foreign policy promotes a multipolar world and can be summed up as one that strives to insert the country onto the world stage as an active, autonomous, and independent agent.

C. METHODOLOGY AND THEORETICAL FRAMEWORK

As a single case study, this thesis focuses on Venezuela's changing foreign policy towards the United States (dependent variable). It will analyze a number of possible causal factors (independent variables) driving these changes. These include, the new post-Cold War international system, unpopular U.S. policies towards Venezuela, domestic issues within Venezuela, and President Chávez.

International Relations Theory will be used to explain why the shift has occurred. Specifically, K.J. Holsti's asymmetrical interdependence theory will be used at the international level. This theory holds that the following

may be among the outcomes expected by a country in this type of relationship.

1) Terminate practices of joint policymaking, problem solving, or policy coordination; they may also withdraw support from, reduce participation in, institutions having supranational characteristics. 2) Alter asymmetrical relationships by significantly diversifying external contacts, building regional coalitions, or entering into regional integration schemes as a way of escaping domination by a hegemon. 3) Resist further integration but not seek to disintegrate or secede.¹

Jeffrey Frieden's political economy approach will be used to examine the domestic level. This method uses the policy preferences of individual actors, how they form into groups that can influence politics, how these groups seek to obtain policies favorable to them in the context of the existing institutions, and the outcome these groups have on policy.²

The highest levels of U.S. government have hinted that Chávez is the problem in Venezuela.³ Chapter V will determine if he is the causal factor for Venezuela's more independent foreign policy. At the individual level President Chávez will be compared to previous executives in order to establish what impact he has on bilateral relations. Issues of contention between Chávez and the United States will also be looked at.

¹ Holsti, K.J., "Change in the International System: Interdependence, Integration, and Fragmentation," in Alexander George, Ole Holsti, and Randolph Siverson, eds. *Change in the International System*, Westview Press, 1970, p.p. 33-34.

² Frieden, Jeffrey, "The Method of Analysis: Modern Political Economy," in Jeffrey Frieden, Manuel Pastor, and Michael Tomz, eds. *Modern Political Economy and Latin America*, Westview Press, 2000, p.p. 42-43.

³ "Bush Official: Sharon a Proponent of Peace, Chávez a Problem", CNN.com, 02 Mar 2001, <http://www.cnn.com/2001/US/03/02/bush.policy/index.html>, [06 Mar 2001].

D. IMPORTANCE

This thesis is important because it answers why relations between the two countries have become increasingly stressed over the last five years. Once the sources of stress are known, U.S. policies can be implemented to strengthen bilateral cooperation. This cooperation is vital because Venezuela is an important source of oil imports to the United States (among the top three importers since the early 1980s). Venezuela is also a major transshipment country for illicit drugs from Colombia and therefore its cooperation is important in the drug war. In the economic realm its collaboration will be needed in an eventual Free Trade Area of the Americas (FTAA). Finally, Venezuela's desertion of its past policy of closeness to the United States may serve a demonstration effect that could alter U.S. relations with other Latin American countries.

E. ORGANIZATION OF THE STUDY

Chapter II addresses the dependent variable in this case: the shift in Venezuela's foreign policy. It reviews relations between the two countries since 1980. This chapter has three objectives: 1) To describe Venezuela's foreign policy behavior when it saw the United States as its foremost interest, 2) To show that Venezuela's foreign policy towards the United States has changed, and 3) To identify the approximate date of this shift.

Chapter III examines the international variables to determine their impact on the relationship. Specifically the end of the Cold War, asymmetrical interdependence, the neoliberal economic model, and U.S. policy towards

Venezuela will be addressed to determine if any or all of these are causal variables.

Chapter IV addresses the power of domestic politics in the relationship. Is foreign policy being subordinated to the needs of the domestic regime? The political model failed in the early 1990s along with neoliberal economic reform. It will be determined if this domestic chaos impacted bilateral relations.

Chapter V will look at the rhetoric and actions of President Chávez to determine the impact he has had on the bilateral relationship and if his actions are really that much different than previous presidents.

Finally, Chapter VI offers conclusions on which level of analysis and variables have the most explanatory power. Additionally, some policy recommendations will be offered to improve the relationship.

The main findings of this thesis are that the end of the Cold War and the rejection of the Washington consensus have contributed to Venezuela's de-emphasis on the United States. At the domestic level, a pact democracy and oil led development have also played an important role in distancing Venezuela from the United States. At the individual level, President Chavez is an irritant to U.S. interests. He is an added cause to the distancing in relations but not the main cause.

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II. THE SHIFT AWAY FROM THE U.S.: CHANGES IN VENEZUELA'S FOREIGN POLICY.

Since the establishment of a stable democracy in Venezuela in 1958 the U.S. has perceived Venezuela as one of its greatest allies in Latin America. In 1982 it was noted in the U.S. Senate: "Venezuela was a country that contributed to regional stability by subsidizing oil prices and providing financial assistance to less well off nations."⁴ Venezuela also "joined with Canada, Mexico, and the United States in the formation of the Caribbean Basin Initiative, and was an example of a pluralistic and democratic society"⁵ in the region. Similarly, Venezuela has seen the U.S. as its most important ally economically and as a strategic partner in issues such as safety and free passage of shipping in the Caribbean, support of democracy in Latin America, and opposition to the expansion of Cuban influence in the hemisphere.

Over the last decade there has been a shift in Venezuelan foreign policy from seeing the United States as its leading interest to a focus on other countries and issues. On a 1999 visit to Venezuela, Congressman Bill Archer (R-TX), Chairman of the House Ways and Means Committee, stated "the United States has often taken for granted its good relations with Venezuela in the past--and that now we must all work to foster those good relations in the future."⁶ The altering relationship has not gone

⁴ "Proposed Sale of F-16's to Venezuela", Committee on Foreign Relations United States Senate, February 05, 1982. p. 5. U.S. Government Printing Office.

⁵ Ibid.

⁶ "Report on Trade and Economic Growth Mission to Venezuela, Chile, and Brazil", Committee on Ways and Means U.S. House of Representatives, March 31,

undetected in the Bush administration. An unnamed senior official noted that President Bush views Venezuelan President Hugo Chávez as "a problem."⁷

The over-arching argument of this chapter suggests that economic issues are driving Venezuela's relationship with the United States. This thesis aims to distinguish the puzzle to be explained (dependent variable), Venezuela's shift in foreign policy away from its primary orientation towards the United States, from the factors doing the explaining (independent variables). The indications of this "problem" (dependent variable) are evident and will be discussed in detail in this chapter; the causes (independent variables) cannot be attributed purely to President Chávez and will be discussed in the following three chapters. These include, the new post-Cold War international system and U.S. policies towards Venezuela (Chapter III), domestic issues within Venezuela (Chapter IV), and President Chávez (Chapter V).

In common with any state, Venezuela's interests and views do not always agree with those of the United States. Historic and undeviating points of contention have been the Arab-Israeli conflict, nuclear weapons, and sovereignty issues. The 1970s saw a more independent Venezuela as its internal guerrilla threat abated, Soviet-United States relations warmed, and oil revenues increased.⁸ This was in contradiction to the 1960s that saw almost total agreement with the U.S. on issues in both the United Nations and the

1999. p. 6. U.S. Government Printing Office.

⁷ "Bush Official: Sharon a Proponent of Peace, Chávez a Problem", CNN.com, 02 Mar 2001, <http://www.cnn.com/2001/US/03/02/bush.policy/index.html>, [06 Mar 2001].

⁸ Ewell, Judith, *Venezuela and the United States: From Monroe's Hemisphere to Petroleum's Empire*, University of Georgia Press, 1996, p. 211.

Organization of American States (OAS). During the 1960s, Venezuela also remained out of the Non-Aligned Movement due to the movement's aggressive political agenda and the influence exercised by Fidel Castro.⁹ Despite its more independent foreign policy, argued by some to be strengthened by global oil shortages,¹⁰ Venezuela maintained shared interests with the United States throughout most of the last two decades.

This chapter will discuss the dependent variable in this case study, Venezuela's shift in foreign policy away from the United States. Specifically, Venezuela's foreign policy behavior towards the United States since 1980 will be analyzed with three ends in mind. First the chapter will describe Venezuela's behavior when it saw the United States as its number one foreign policy interest. Second, it will show that Venezuelan foreign policy towards the U.S. has changed. Lastly, it will show the main shift came during the term of President Rafael Caldera, who held office prior to President Chávez. I will also examine linked interests in diplomatic, bilateral relations, oil, and integration/trade spheres.

In general, I will argue that the end of the Cold War and the country's oil wealth have allowed Venezuela to pursue different policies in dealing with its neighbor to the north. This changing relationship mostly revolves around economic interests. Venezuela's economic development plan of using oil rents to protect domestic industry makes the country vulnerable to globalization and further economic integration with the United States. For

⁹ Ibid.

¹⁰ Ewell, p. 201.

this reason, Venezuela is looking at other countries to expand markets for non-oil exports.

A. DIPLOMATIC LINKS

Throughout the 1980s the core of Venezuela's relationship with the United States remained strong despite the fact that Venezuela continued its more autonomous foreign policy of the 1970s. These basic strategic interests were regional in nature and included the oil relationship, security of Caribbean sea-lanes, a desire to promote political stability and democracy in the region, and opposition to Cuban influence.

Venezuela at times joined with third world nations in the United Nations to vote against the United States and at other times backed U.S. interests. Notwithstanding shared interests Venezuela was not a staunch ally across all issue areas. In fact from 1984 to 2000, Venezuela voted against the United States in the United Nations at a higher rate than the Latin American average every year except two (1990, 1997).¹¹ Venezuela most consistently opposed Washington on the issues of Nicaragua, Palestine, and nuclear arms.

Despite disagreements on issues important to it, Venezuela muted criticism of its larger neighbor and maintained a positive relationship. In 1982 Venezuela along with Mexico, Colombia, and Panama formed the Contadora Group to bring an end to the problems in Nicaragua yet "Washington's obvious distaste for Contadora led Caracas to play a relatively quiet role within the

¹¹ *Voting Practices in the United Nations*, United States Department of State, U.S. Government Printing Office, 1983-2001 editions.

group."¹² Venezuela was on the United Nations Security Council in 1986 when the United States bombed Libya. Notwithstanding the fact that Libya was an OPEC member Venezuela sided with the United States by abstaining from a United Nations Resolution that condemned the bombing and also refused to support an OPEC oil embargo against the United States.

The 1990s has seen an increased divergence in Venezuela's policy with respect to the United States. Internationally, the Cold War ended and neoliberal economics was accepted as the norm. In Venezuela, domestic chaos resulted as traditional parties collapsed and economic reform failed.

During the 1990s Venezuela became increasingly critical of Washington's policy towards Cuba. From 1992 to 2000 Venezuela voted opposite to the United States on all resolutions regarding Cuba.¹³ In the 1996 Summit of the Americas Venezuela voted in favor of a resolution condemning the U.S. for the Helms-Burton Law. In 1999, Venezuela voted against the United States on a human rights resolution on Cuba and on March 28, 2001 Venezuela called for the reinstatement of Cuba into the OAS.¹⁴

In 1994 Venezuela's agenda at the Summit of the Americas included solving social problems caused by the opening of economies, hemispheric energy integration, and a hemispheric plan against corruption. Sanctions and development have become new issues of disagreement in both

¹² Ewell, p. 222.

¹³ *Voting Practices in the United Nations*, United States Department of State, U.S. Government Printing Office, 1983-2001 editions.

¹⁴ "Venezuela Quiere Reintegración Plena de Cuba en la OEA", El Universal.com, 28 Mar 2001, http://www.el-universal.com/2001/03/28/28032001_24.html, [28 Mar 2001].

United Nations and OAS forums. In United Nations resolutions considered important to the United States since 1991 (sanctions, development, debt, and a stable international financial system) Venezuela voted contrary to the United States in every case.

After the 1999 election of President Hugo Chávez diplomatic relations have become more confrontational. Chávez became the first western leader to visit Iraqi President Saddam Hussein. On this trip, he reiterated that the "Venezuelan position supports any accord against any kind of boycott or sanctions that are applied against Iraq or any other country in the world."¹⁵ The current government's plan stresses inserting Venezuela into a multipolar international community as an active, autonomous, and independent agent. Some specific goals include accelerating regional integration through a Great Conference of Latin American and Caribbean Nations, a common market for the Andean Pact, joining the Andean Pact and the Common Market of the Southern Cone (MERCOSUR), promoting the principle of equality among states, denouncing the voracity of world financial powers, and a strengthening of OPEC.¹⁶ These new goals will have serious implications for bilateral relations with the United States. The general trend on Venezuela's position on issues important to the U.S. can be seen in Figure 1.

¹⁵ "Chávez Ends Visit to Iraq After Drive Around Baghdad with Hussein", CNN.com, 11 Aug 2000, www10.cnn.com/2000/WORLD/meast/08/11/iraq.chavez.01/index.html, [08 Mar 2001].

¹⁶ Plan de Gobierno, <http://www.venezuela.gov.ve/mainhechos.html>, [08 Mar 2001].

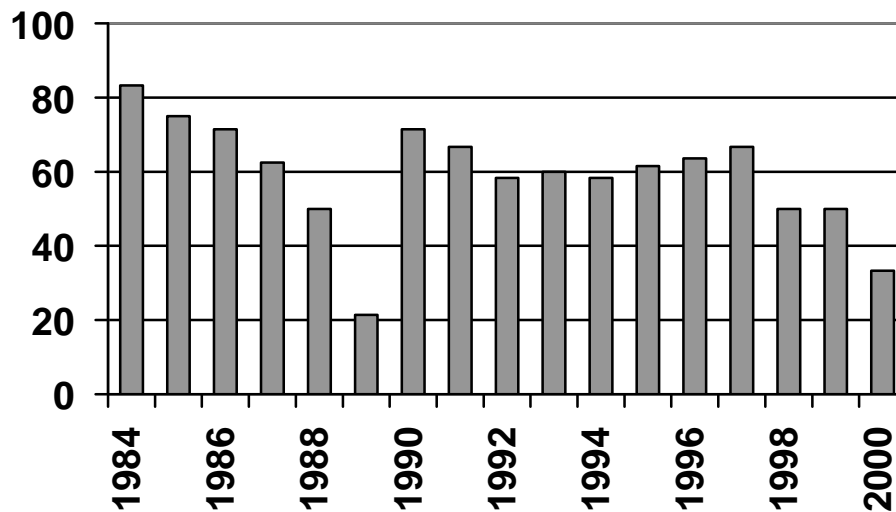


Figure 1. Venezuelan Coincidence with United States Votes in the United Nations (percentage)

From: *Voting Practices in the United Nations*, United States Department of State, U.S. Government Printing Office, 1985-2001 editions.

B. BILATERAL RELATIONS

Bilateral relations have focused in the past and continue to revolve around petroleum. The U.S. sees Venezuela as an important ally and as a vital source of petroleum. Similarly, Venezuela sees itself as a trusted and reliable supplier of petroleum to the United States during war and peace.¹⁷ Issues surrounding oil have not been free of disagreements. From 1959 to 1973 the United States maintained oil quotas against Venezuela and in the mid 1990s gasoline imports were barred for environmental reasons. In general, both countries consider the security

¹⁷ "Sostiene Burelli Rivas, Visita de Clinton a Venezuela Beneficia a EEUU", El Nacional.com, 08 Mar 1997, <http://128.241.247.116/archive/result.asp?file=d:\www\nacional\home\archive\1997\03\08\250.htm&rest=Clinton+>, [15 Jul 2001].

of the oil fields and freedom of movement of this commodity through the Caribbean as vital to their interests.

This shared view was the basis of a special military relationship between the two countries. The sale of F-16 fighter jets to Venezuela in 1982 reflected this relationship. Venezuela took delivery of their first F-16A in 1984, just five years after the first operational F-16A was delivered in January 1979 to the 388th Tactical Fighter Wing at Hill Air Force Base, Utah.¹⁸ In the hearing on the proposed sale before the Committee on Foreign Relations in the Senate Venezuela was extolled for its importance in the Caribbean. Senator Charles Percy (R-IL) noted before the hearing began that, "It is important to reiterate that Venezuela is a strong ally of the United States. Venezuela is one of the few successful democracies in Latin America. It supports U.S. policy in El Salvador; it is an important donor in the new Caribbean basin initiative. It exports 650,000 barrels of oil per day to the United States."¹⁹ Even in 2001, Venezuela remains the only country in Latin America to have purchased F-16s from the United States.

Security of the oil fields and the Caribbean remains a priority but for reasons to be discussed in detail in Chapter III, this issue has decreased in importance. The new military issues of the 1990s revolve around the drug war. In 1991, Venezuela signed an agreement to allow the U.S. Coast Guard to board Venezuelan vessels. In 1994 a hot pursuit agreement was signed which allowed U.S. military aircraft to chase suspected drug traffickers into

¹⁸ "F-16 Fighting Falcon" USAF Fact Sheet, http://www.af.mil/news/factsheets/F_16_Fighting_Falcon.html, [08 Oct 2001].

¹⁹ "Proposed Sale of F-16's to Venezuela", Committee on Foreign Relations United States Senate, February 05, 1982. U.S. Government Printing Office.

Venezuelan airspace. In 1996, Secretary of Defense William Perry visited Venezuela with the goal of strengthening anti-drug cooperation. In 1997 the two countries signed a joint declaration of Strategic Alliance Against Drugs. The declaration addressed most of the areas in the 1988 UN Convention on Drugs that Venezuela signed in 1991.

However, since the mid 1990s cooperation in the anti-drug arena has become strained. In 1996 the U.S. Coast Guard was not allowed to board Venezuelan ships using legal detachments (LEDATS) based aboard third nation ships. Starting in 1997 then President Caldera denied U.S. requests for over flight permission, a pattern followed by President Chávez. Many experts in the United States also see Venezuela's continued refusal to extradite Venezuelan nationals as noncooperative in the anti-drug effort. This policy was strengthened by the 1999 constitution that prohibits the extradition of Venezuelans.

Other vital bilateral issues for Venezuela revolve around economic and sovereignty issues. On January 23, 1995, Venezuela filed a complaint against the United States regarding discrimination against gasoline imports. The EPA had stricter standards for imported gasoline than domestic. This resulted in the loss of most of the Eastern market for Venezuelan gasoline. The World Trade Organization (WTO) dispute panel agreed with Venezuela one year later. It took another year and half for the U.S. to sign a new regulation allowing the gasoline imports. On the sensitive issue of sovereignty Venezuela refused the help of U.S. troops after the December 1999 floods. President Chávez clearly stated, "I want to clarify to the world that North

American troops are not going to come to Venezuela.”²⁰ Venezuela has also come out against Plan Colombia because of concerns of spillover and American unilateral action.

C. OIL

Since the discovery of oil in 1922, Venezuela’s number one trading partner has been the United States and its most important export has been oil. Oil exports to the U.S. have traditional been around half of Venezuela’s total exports, 90 percent of these being petroleum. The U.S. consumes roughly half of Venezuela’s total oil production (1.45 million barrels/day in 1999).²¹ Percentage of trade to the U.S. shadows petroleum imports.²² The percentage of oil as total exports has fallen and in 1995 was 75 percent (Figure 2).

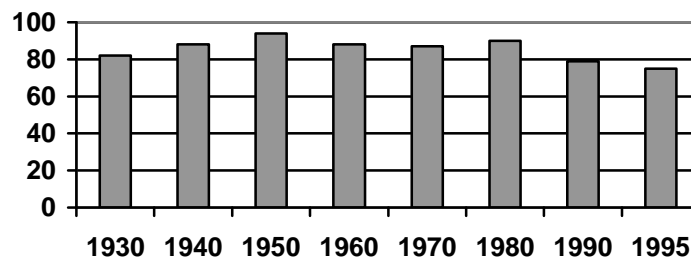


Figure 2. Venezuela Oil Exports as a Percentage of Total Exports (1930-1995)

From: "Principal Commodities Exported", Thorpe, Rosemary, *Progress, Poverty and Exclusion: an Economic History of Latin America in the 20th Century*, The John Hopkins University Press, 1998, p.347.

²⁰ "Chávez Spurs Flood Relief From U.S. Troops", CNN.com, 13 Jan 2000, <http://www3.cnn.com/2000/WORLD/americas/01/13/venezuela.us/index.html>, [08 Mar 2001].

²¹ "Petroleum Imports by Country of Origin, 1960-1999", *Annual Energy Review*, 1999, Energy Information Administration, July 2000, p. 125.

²² "Table S3. Crude Oil and Petroleum Imports: 1986 - Present", United States Department of Energy Website, http://www.eia.doe.gov/pub/oil_gas/petroleum/data_publications/petroleum_supply_monthly/current/pdf/stable3.pdf, [09 OCT 2001].

Historically, Venezuela cooperated with the United States to ensure world oil supplies were adequate and in 1996 Venezuela once again allowed foreign investment in its state-owned oil industry. One example of direct cooperation with the U.S. in addition to voting against an oil embargo after the bombing of Libya was during the Gulf War. Venezuela initially supported Iraq but after a visit by President Bush Venezuela took the U.S. position and increased oil production to bring down prices.

Prior to President Chávez, Venezuela, despite being a founding member of OPEC, was a frequent quota buster. As noted previously, a specific goal of the Chávez administration is to strengthen OPEC. Chávez visited other OPEC leaders in 2000 and organized the second meeting of OPEC leaders in its 40-year history. Many have credited him with the resurgence of the cartel and a subsequent rise in oil prices.²³

Venezuela was the number one exporter of oil to the United States from 1995 to 1998 (among the top three suppliers since 1983). In 1999 Venezuela was again the number three supplier behind Canada and Saudi Arabia.

D. INTEGRATION AND TRADE

The 1980 to 1989 time period saw little effort on the part of Venezuela in integration and trade agreements. After 1989, trade and integration became a more important issue as Venezuela increased its participation in

²³ "Venezuela's Chávez Exhorts OPEC Leaders to Demand Justice From Developed Nations", CNN.com, 28 Sep 2000, <http://www.cnn.com/2000/WORLD/americas/09/28/opec.summit/index.html>, [06 Mar 2001].

international agreements as part of its economic liberalization program.²⁴

Even before Chávez took office in 1999, Venezuela began a process of integration with Latin America, the EU, and Asia. For example, President Rafael Caldera signed an agreement to sell orimulsion (an extra heavy crude oil) to China in 1996.

With the rise of Hugo Chávez to the presidency, integration efforts have expanded to include economic, military, and diplomatic spheres. Chávez has repeatedly stated his desire for a united Latin America modeled after Simon Bolivar's original plans for a United States of Latin America. Chávez has also voiced support for a South American NATO-type force to balance the United States. The current government's plan stresses inserting Venezuela in the international community as an active, autonomous, and independent agent.²⁵ Some specific goals include accelerating regional integration through a Great Conference of Latin American and Caribbean Nations, a common market for the Andean Pact, joining the Andean Pact and MERCOSUR, and a strengthening of OPEC. Integration efforts are not new but what is new is the emphasis on non-economic areas of cooperation, OPEC unity, and Cuba. In addition integration efforts by Venezuela that traditionally focused on Latin America now also include other areas of the world. There is however, no mention of strengthening relations or integration with the United States. These new integration and trade pacts have

²⁴ See Table one for a list of major agreements Venezuela has entered into or strengthened since 1980.

²⁵ Plan de Gobierno, <http://www.venezuela.gov.ve/mainhechos.html>, [08 Mar 2001].

increased trade with many regions but trade with the U.S. has remained static. Following is a synopsis of trade developments with the United States, Latin America, and the EU.

Agreement	Year
The Treaty of Montevideo	1980
Latin American Integration Agreement (ALADI)	1984
Caribbean Common Market (CARICOM)	1992
Free Trade Agreement between Colombia and Venezuela	1992
Free Trade Agreement between Chile and Venezuela	1993
The G3, consisting of Mexico, Colombia, and Venezuela	1994
World Trade Organization (WTO)	1994
Preferential General System in the EU	1995
The Andean Community (replaced Andean Pact)	1996

Table 1. Important Commercial and Integration Agreements: 1980-2000.

From: "Commercial and Integration Agreements", Embassy of Venezuela Washington D.C., <http://www.embavenez-us.org/comercio/commerce.html> [07 Mar 01].

1. The United States

Latin America is the fastest growing regional trading partner for the United States. Between 1990 and 1999, total U.S. trade (exports plus imports) with Latin America grew by 163 percent (Asia was a distant second at 82 percent). Yet among countries listed in a Congressional Research Service report Venezuela had the second lowest growth in exports to the United States over this time period at 18.9 percent (or a paltry 1.9 percent growth per year). Latin America saw exports increase by 162.7 percent to the United States. Venezuela imports from the United States grew 74.2 percent, the third lowest among countries listed. The Latin American average was 162.8 percent.²⁶

²⁶ "U.S. Latin American Trade: Recent Trends", CRS Report to Congress, March

2. Latin America

The Andean Pact has a long history in South America. The year 1996 saw further evolution in this trade bloc with the ratification by Venezuela of the Andean Community. The goal is to make the regional group a political alliance similar to the EU with free movement of capital and labor across national borders, an Andean Parliament, and an Andean Consultative Group to coordinate multilateral projects in the region. The 1992 signing of a common external tariff increased trade with Colombia by 200 percent and 60 percent with Ecuador.²⁷ The 1992 agreement brought average tariffs down to 10 percent (from 30 percent prior to the CET). The agreement for a customs union was signed on March 10, 1996 and took effect in June 1998. It allowed countries to add a 15 percent surcharge and double the customs handling fee (one percent to two percent) on about 800 products. This effectively raised the average tariff in the region to 11 ½ percent.²⁸

The Free Trade Agreement with the Caribbean that took effect in 1993 has seen positive signs. This innovative one-way agreement allows the Caribbean countries free access to the Venezuelan market for ten years. After that period, the agreement will become reciprocal, giving Venezuela free access to the Caribbean market (starting in January 2003). Although currently a small percentage of imports come from the Caribbean Region they have tripled

2000. http://www.fpc.gov/CRS_reps/crslatrd.htm, [08 Oct 2001].

²⁷ Ferguson, James, *Venezuela: A Guide to the People, Politics, and Culture*, Monthly Review Press, 1994, p. 45.

²⁸ "Venezuela: Recent Economic Developments", IMF Staff Country Reports No. 98/117, November 4, 1998, p 39.
<http://www.imf.org/external/country/VEN/index.htm>, [01 Mar 2001].

since the signing of the agreement in 1992. Exports increased by 32 percent from 1994 to 1999.²⁹

Currently, integration with MERCOSUR is mostly rhetoric at the Venezuela to MERCOSUR level. Thus far President Chávez has only expressed interest in joining MERCOSUR but nothing concrete has been done. Exports to MERCOSUR have grown 14 percent per year from 1990 to 2000. Venezuela is the top exporter and importer to MERCOSUR of the Andean Pact countries.³⁰

Venezuela is also pursuing integration with individual countries in Latin America as can be seen by the emphasis on Brazil, the G-3 agreement, the free trade agreement with Chile, and increased trade with Cuba.

In 1994, President Caldera made Brazil his number one foreign policy objective in the face of much domestic criticism. Chávez has followed this lead and in 1999 signed an agreement in Brazil that agreed to the proposal for a joint venture between Petroleos de Venezuela (PDVSA) and Petrobras of Brazil called the "Petroamerica" company.

Imports from Chile have increased 45 percent since the implementation of the free trade agreement while exports to Chile have increased by 33 percent.³¹ In March 2001, Chile and Venezuela further strengthened their trade agreement by adding mineral, lumber, and agriculture to items covered under the accord. It is estimated this will increase

²⁹ Foreign Trade Information System (SICE) website, Organization Of American States, <http://www.sice.oas.org/default.asp>, [01 Aug 2001].

³⁰ "Venezuela es el Pais Andino que mas Exporta Hacia el Mercosur", El Universal. 17 April 2001.

³¹ SICE.

Chilean investment in Venezuela from \$300 million to \$450 million.³²

In 2000 Venezuela become the top-trading partner with Cuba, increasing trade by 80 percent over 1999. Recent agreements signed between the two countries also included education and medical exchanges and a technical agreement between the civil defense organizations of both countries.

3. European Union

Links with the EU were strengthened when Venezuela signed the Generalized System of Preferences (GSP) that took effect in January 1995 and expires on December 31, 2004. The GSP was designed to encourage access to the European market for Latin American exports, especially those from less developed countries. The European Union has granted Latin America preferential access conditions (exemption or reduction of tariffs) for all industrial products as well as numerous agricultural products. Since December 1990, the EU has granted special GSP preferences for those Andean countries committed to tackling drug production and trafficking (since 1995 for Venezuela). The EU has also agreed to draw up a study with Andean countries on a trade system that could replace the GSP. Andean countries, including Venezuela, have asked to negotiate a free trade agreement with the EU.

Venezuela has experienced success in its economic integration with Latin America. It also sees the EU as another important market. It is no surprise that the Chávez administration is concentrating on four regions for

³² "Chile y Venezuela Firmarán Acuerdos Agrícolas, Mineros, y Maderos", El Universal.com, 08 March 2001, http://www.eluniversal.com/2001/03/08/08032110_72961.html, [08 Mar 2001].

further integration: the Andean Community, MERCOSUR, Caribbean Community and Common Market (CARICOM), and the EU.

E. CONCLUSIONS

From the above facts, it is clear that Venezuela's foreign policy became more divergent from the United States during the second Rafael Caldera administration (1994-1999) and has accelerated under Chávez. This shift has been in the economic and integration spheres. Both diplomatically and in bilateral relations Venezuela is maintaining the status quo of a critical partner in its relationship with the U.S. The modified strategy appears to be an attempt by Venezuela to diversify its economic partners after a 70-year reliance on the United States as its top-trading partner. This shift is significant because these markets may also absorb petroleum exports and make the United States more reliant on Middle East oil.

The next step of this case study will be to determine what motivated Venezuela to focus on other international relationships and issues ahead of the United States. Possible causal factors that will be looked at are 1) the new post-cold war international system, 2) displeasure at U.S. policies towards Venezuela, 3) domestic issues within Venezuela, and 4) President Chávez.

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III. INTERNATIONAL FACTORS EXPLAINING VENEZUELA'S SHIFT IN FOREIGN POLICY

This chapter examines the four most significant aspects on an international level affecting Venezuela-United States relations over the last 20 years: the end of the Cold War, asymmetrical interdependence, the impact of the neoliberal economic model, and United States policy towards Venezuela. It will be determined to what extent these events altered the relationship between Venezuela and the United States.

Briefly, the arguments are as follows. The end of the Cold War removed the penalty for reaching out to other allies for those countries under the United States umbrella; therefore Venezuela can diversify allies with less risk of damaging its relations with the hegemonic power. International relations theory predicts countries in asymmetrical interdependence will try to get out of these associations by diversifying their international political and economic relationships. The neoliberal economic model (referred to in this thesis as the Washington Consensus) is the accepted framework for development. The new model consists of prudent macroeconomic policies, outward orientation, and free market capitalism. The United States exerts pressure on countries to adopt this model. Lastly, United States policy will be looked at to see if unpopular policies have caused a reactive shift in Venezuela's foreign policy. This chapter will conclude by assessing how well these

external international factors explain the changes in Venezuela's approach towards the United States.

A. THE END OF THE COLD WAR

Venezuela fought a Cold War battle on its territory against Cuban-backed insurgents in the 1960s. The United States backed Venezuela in this struggle against revolution and communism. Both countries saw the Cold War as vital to their survival interests and this made cooperation on Cold War matters straightforward. Venezuela was recognized as an important ally and a reliable source of petroleum in the event of a Soviet advance into the Middle East. The United States justification of selling F-16s to Venezuela was "to deter attacks on its oil and other resources."³³ Venezuela's foreign policy during the Cold War focused on anticommunism and the rejection of rightist dictatorships. For Ewell, United States-Venezuelan relations from 1958 to 1990 were played out in the global context of the Cold War.³⁴ Because both countries had the fundamental shared interest of anticommunism disagreement in other areas was muted. This explains why Venezuela was considered a strong backer of United States interests when its United Nations voting shows just the opposite. From 1982-1989, Venezuela voted with the United States at a lower rate than Latin America.

The end of the Cold War brought changing interests and priorities to both countries. The United States saw drugs, democracy, and trade as the key issues in Latin America.

³³ "Proposed Sale of F-16's to Venezuela", Committee on Foreign Relations United States Senate, February 05, 1982. p. 17. U.S. Government Printing Office.

³⁴ Ewell, p. 199.

Venezuela focused on diversification in its worldwide relationships, a workable economic model, and stabilizing a domestic political crisis.

Current United States national security interests and objectives in Latin America are to shape a stable, peaceful regional security environment, foster American prosperity through trade and integration, and promote democracy.³⁵ The United States position as hegemon is unrivaled in the world and is stronger compared to Venezuela than during the Cold War. In general, the United States pursues its policies in a bilateral manner. For example, cooperation in the drug war is sought on a country-by-country basis, as are most economic agreements.

For Venezuela, the end of the Cold War has taken away the penalty for seeking ties outside the hemisphere because external actors are no longer a threat to the United States. Previous to 1990, Venezuela's major links to non-hemisphere nations were its OPEC allies. But during the Cold War there was no question allegiance to the United States trumped OPEC unity. Venezuela never participated in any of the OPEC or Arab embargoes against the United States since the creation of the cartel.

After the 1989 collapse of the communist world, Venezuela began a "defensive, or cautious, approach of simultaneously seeking firmer economic ties both with the United States and with other global trading partners."³⁶ The trend of further integration with the United States slowed after 1994 when the Caldera administration reversed

³⁵ Schulz, Donald, *The United States and Latin America: Shaping an Elusive Future*, Strategic Studies Institute Report, U.S. Army War College, March 2000, p. 16.

³⁶ Ewell, p. 201.

economic liberalization and made Brazil the top priority in foreign and economic policy. Venezuela continues to expand its ties with countries outside the hemisphere and OPEC, most significantly Russia and China. The Chávez administration has as one of its principle goals to "insert Venezuela in the international community as an active, autonomous, and independent agent."³⁷

Venezuela is now able to play a more active role in Latin America because issues have been taken out of the context of anticommunism. Nowhere have this been more evident than its dealings with Cuba. Venezuela has significantly increased political, economic, and social ties with the island nation. Recent accords signed between the two countries include education and medical exchanges and a technical agreement between the civil defense organizations of both countries. In 2000 Venezuela passed Spain as Cuba's top trading partner.

An example of how the new environment allowed for increased Venezuelan participation at the international level was the employment of forces to Central America. The largest overseas deployment of Venezuelan forces in its history occurred in 1990 (702 soldiers and 20 military observers) to support the United Nations Observer Group in Central America.³⁸

In summary, United States-Venezuelan strategic interests no longer evolve around the fight against communism. Ideologically based historic interests like

³⁷ Plan de Gobierno, <http://www.venezuela.gov.ve/mainhechos.html>, [08 Mar 2001].

³⁸ Romero, Carlos, "Exporting Peace by Other Means: Venezuela," in Jorge Domínguez, eds. *International Security and Democracy: Latin America and the Caribbean in the Post-Cold War Era*, University of Pittsburgh Press, 1998, p. 160.

nonintervention, opposition to sanctions, and human rights have moved up the priority list in Venezuelan foreign policy and are sources of disagreement. Likewise, economic issues such as development and the FTAA are also seen from different perspectives. Again, many of these views existed prior to 1989 but were relatively unimportant in the context of the Cold War.

The end of the Cold War has given Venezuela more autonomy in its foreign policy. While this explains why diversification of allies on the part of Venezuela is possible it does not answer why Venezuela has stopped seeking to strengthen links with the United States. All countries in Latin America faced the same new international environment yet most have reinforced relations with the United States (except Cuba and possibly Brazil) while expanding their allies abroad. The end of the Cold War is a necessary but not sufficient condition to explain Venezuela's shift in foreign policy.

B. ASYMETRICAL INTERDEPENDENCE

The discovery of oil in the early 20th century integrated Venezuela into the world economy and cemented a relationship with the United States that remains to this day. Petroleum linked Venezuela to the United States like no other Latin American country. The United States has been the origin of cultural (Venezuela's most popular sport is baseball), financial (85 percent of Venezuela's foreign debt is owed to U.S. creditors), and economic (U.S. is number one trading partner) bonds. Venezuela is reexamining this interdependent relationship in the context of the new post-Cold War international environment.

International relations theory explains Venezuela's reduced emphasis on the United States. Keohane and Nye define interdependence as "situations characterized by reciprocal effects among countries or among actors in different countries."³⁹ They stress that the definition is not limited to "situations of mutual benefit."⁴⁰ Currently, the main advantage for Venezuela in this interdependent relationship is the large petroleum market in the United States.

There are a number of disadvantages in the economic relationship. Venezuela is not competitive in the United States market for two primary reasons. First, the Bolivar is overvalued and this causes exports to be expensive and noncompetitive in the overseas markets. Second, Venezuela's export economy is geared towards petroleum and other primary products like aluminum and steel. This has resulted in the near extinction of the agriculture and manufacturing sectors geared to exports.

The economic relationship between the two countries is also asymmetrical because exports to the United States are almost all primary products but imports from the United States are mostly manufactured goods. Venezuela is at a disadvantage because there is less value added to primary products than manufactured goods. Additionally, manufactured goods are not subject to the extreme price swings associated with natural resources. Another aspect of the asymmetry is the percentage of trade accounted for by Venezuela to the United States. In 2000, United States imports from Venezuela accounted for just 1.53 percent of

³⁹ Keohane, Robert and Nye, Joseph, *Power and Interdependence: World Politics in Transition*, Little, Brown and Company Limited, 1977, p. 8.

total imports.⁴¹ Exports to Venezuela accounted for 3.18 percent of the U.S. total in the same year.⁴²

Asymmetrical relationships like the United States and Venezuela have the potential for unequal gains that may result in a response by the weaker nation to distance itself from its partner (disintegration or fragmentation). "In cases where two political units have achieved a high level of formal political or economic integration and one subsequently attempts to establish increased autonomy, disintegration is the result."⁴³ Further: "Political or economic integration should not be expected to occur, moreover, where there is a basic asymmetry on the pattern of transactions and in expected economic gains between the parties."⁴⁴ As discussed in chapter two, during the 1990s Venezuela's imports from the United States grew by 74.2 percent while exports to the United States increased just 18.9 percent. A free trade agreement between the two countries would benefit the United States because Venezuela business and manufacturing is not competitive with its northern counterparts with the exception of aluminum, petroleum, and steel. This type of agreement would cause the disappearance of noncompetitive domestic producers because their trade protection and state subsidies would in theory be eliminated.

⁴⁰ Keohane and Nye, p. 9.

⁴¹ "United States, Importing Country Venezuela: Value Share", Module to Explore and Review International Trade Statistics (MERIT) website, <http://200.38.33.143/merits/>, [01 Jun 2001].

⁴² "United States, Exporting Country Venezuela: Value Share", Module to Explore and Review International Trade Statistics (MERIT) website, <http://200.38.33.143/merits/>, [01 Jun 2001]

⁴³ Holsti K.J., p. 24.

⁴⁴ Holsti K.J., p. 32.

This asymmetrical relationship also extends to political and military areas. K.J. Holsti lists the following as expected policies by the weaker country in asymmetrical interdependence:

1. Terminate practices of joint policymaking, problem solving, or policy coordination; they may also withdraw support from, reduce participation in, institutions having supranational characteristics.
2. Alter asymmetrical relationships by significantly diversifying external contacts, building regional coalitions, or entering into regional integration schemes as a way of escaping domination by a hegemon.
3. Resist further integration but not seek to disintegrate or secede.⁴⁵

Venezuela has used many of these tactics in its quest to get out of its asymmetrical relationship with the giant to the north.

In joint problem solving, Venezuela has distanced itself or shown opposition to United States influence in the region. Venezuela is against Plan Columbia and refuses to coordinate with the United States on this issue. Overflight requests for United States aircraft have been continuously denied since 1994.

Regional integration and non-hemispheric links have become an important focus over the last decade. President Caldera (1994-1999) made Brazil his number one foreign policy issue and increasingly looked to Asia and the EU to expand trade. The Chávez administration is focusing on four regions for increased integration, the Andean

Community, MERCOSUR, CARICOM, and the EU. Venezuela has positioned itself well in Central America and the Caribbean by the 2000 signing of a preferential petroleum agreement. Under this agreement Venezuela offers up to 80,000 barrels of oil per day (bpd) to the 12 signatory nations. Should each country import the maximum amount Venezuela's exports would total 960,000 bpd (the United States imported 1.26 million bpd in 2000). The groundwork has been laid for this region to rival the United States in export share. Venezuela is also seeking to enter MERCOSUR in hopes that by growing MERCOSUR into a South America Free Trade Zone a counterweight to NAFTA can be created that will increase bargaining power in an eventual FTAA Agreement.

In the Chávez administration's economic plan the United States is conspicuous by its absence. Venezuela is not pursuing further economic integration with the United States.

Asymmetrical interdependence explains Venezuela's shift in foreign policy away from the United States because Venezuela fears increased integration will be harmful to its long-term economic interests. How successful has the policy been? So far, the policy has flourished. Venezuela has increased petroleum exports to the United States since 1994 (Figure 1) and has also opened up new markets for both petroleum and non-petroleum exports. For example, trade with the Caribbean Region increased 32 percent between 1994-1999.⁴⁶

⁴⁵ Holsti, p.p. 33-34.

⁴⁶ SICE.

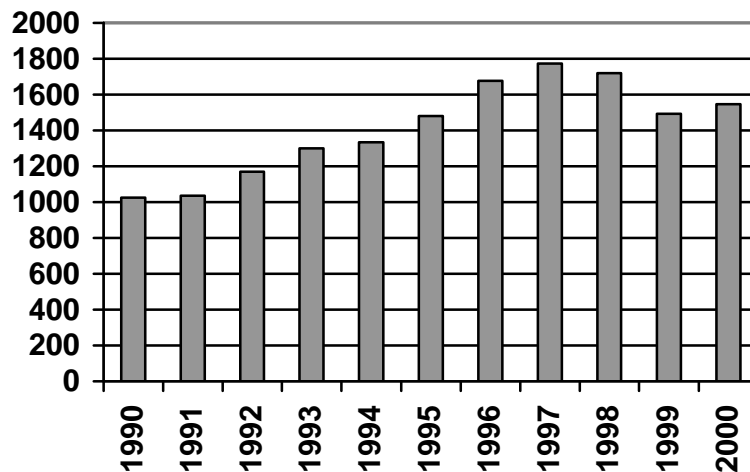


Figure 3. Crude Oil and Petroleum Imports 1990-2000
(thousands of bpd)

From: "Table S3: Crude Oil and Petroleum Product Imports, 1986-Present" United States Department of Energy, http://www.eia.doe.gov/pub/oil_gas/petroleum/data_publications/petroleum_supply_monthly/current/pdf/stable3.pdf.

C. IMPACT OF THE WASHINGTON CONSENSUS

Another important factor in the post-Cold War is the near worldwide acceptance of neoliberal economics. This new model is commonly referred to as the Washington Consensus. The main principles of this model are: the opening up of a country to the world economy through trade liberalization, the reduction of government intervention, privatization, fiscal discipline, tax reform, making the private sector the engine of growth through deregulation and financial liberalization, and easier access to foreign direct investment.⁴⁷ Another key tenet is that market forces rule the world and the days of import substitution industrialization (ISI) are over.

⁴⁷ Rodrick, Dani, "Understanding Economic Policy Reform," in Jeffrey Frieden, Manuel Pastor, and Michael Tomz, eds. *Modern Political Economy and Latin America*, Westview Press, 2000, p. 63.

These new forces reduce the economic and development options available to nations. It is argued if countries do not heed market forces they will face capital withdrawal and the denial of further credit by international financial institutions. Embracing liberalization is supposed to lead to new exports opportunities as inefficiencies are rooted out of the economy and the market determines what the country should produce.

Venezuela embraced the Washington consensus in 1989 but after a disastrous outcome reversed course. Venezuela has twice flirted with reform (1989, 1996) and both times returned to a state model of development while leaving some aspects of the reforms in place. Common justifications for implementing the Washington consensus are the support it receives from the International Monetary Fund (IMF) and World Bank, the success of the Asian Tigers, a way out of economic crisis, and a conduit to increase trade.⁴⁸ Venezuela's experience with the Washington consensus follows, including what motivated the country to reform and the impact this has had on relations with the United States.

1. Venezuela's Economic Model and History Of Reforms

Venezuela's economic development pattern of ISI was not seriously challenged until 1989. The ISI model focused on using petroleum revenues to subsidize local industries, preserve an overvalued exchange rate, maintain low inflation, grow the economy, and co-opt opposition forces.

⁴⁸ Gwynne, Robert and Kay, Cristobal, "Latin America Transformed: Changing Paradigms, Debates and Alternatives," in Robert Gwynne and Cristobal Kay, eds. *Latin America Transformed: Globalization and Modernity*, Oxford University

The central state served as the supervisor and dispenser of oil monies. Since the first reforms in 1983, Venezuela has seen economic reform and statist policies alternate back and forth with the rise and fall of oil prices. This eclectic policy has caused apprehension in Washington and even opposition "to the Venezuelan pattern of state management of the economy."⁴⁹

The first attempt at reform came about due to international factors. The Luis Herrera Campins (1978-83) administration devalued the Bolivar on February 18, 1983 in response to a foreign exchange crisis due to the Mexican default of 1982. The Jaime Lusinchi (1983-1988) government put in a differentiated exchange rate that reduced the effectiveness of devaluing the Bolivar. He also sustained the populist ISI model and no changes were made in economic policy. Government spending increased while oil prices declined. The result was when Carlos Andres Perez took office in 1989 he inherited a bankrupt state; total external debt was just over \$29 billion.⁵⁰

Upon assuming office Perez immediately implemented a textbook case of the Washington consensus called *El Gran Viraje* (The Great Turnaround). These reforms included the lifting of price controls, exchange-rate controls, a value added tax, renegotiating the country's debt, tightening fiscal policy, liberalizing trade, and privatization.

Press, p.p. 15-16.

⁴⁹ Crisp, Brian, and Levine, Daniel H., "Venezuela: The Character, Crisis, and Possible Future of Democracy," in Larry Diamond, Jonathan Hartlyn, Juan Linz, and Seymour Lipset, eds. *Democracy in Developing Countries: Latin America*, Lynne Reimer Publishers, 1999, p. 412.

⁵⁰ Karl, Terry, *The Paradox of Plenty: Oil Booms and Petro-States*, University of California Press, 1997, p. 258.

On a macro-economic level the results were encouraging. By 1990 inflation was down from 80 percent to 31 percent. GDP growth was 9.2 percent and unemployment fell to 7.5 percent. However, the domestic reaction to the new economic policies was volatile. Shortly after the reforms began riots occurred in Caracas and in 1992 two coup attempts occurred. The impeachment of President Perez in 1993 froze reform efforts.

In the 1994 election Rafael Caldera ran on a campaign of opposition to the economic reforms and "a return to the days of the interventionist state."⁵¹ Upon assumption of office Caldera immediately overturned many reforms. For example, he abolished the value added tax on the first day of the new administration.⁵² A banking crisis led to more severe economic problems in late 1994. This crisis resulted in a second round of economic reforms in 1996. Price controls were again removed, privatization restarted, a wholesale and luxury tax replaced the extinct value added tax, and a crawling-peg exchange rate was implemented. The failure of this reform was attributed to government increasing public spending as oil prices rose and income came in from privatization.

In summary, both external shocks and internal events have motivated Venezuela to look to neoliberal economic reform. These reforms have been implemented as a last resort but are quickly reversed when oil revenues increase. Why does Venezuela see this model as counterproductive?

⁵¹ Crisp and Levine, p. 393.

⁵² Buxton, Julia, "Venezuela," in Julia Buxton and Nicola Phillips, eds. *Case Studies in Latin America Political Economy*, Manchester University Press, 1999, p. 172.

2. The Washington Consensus as an Option

The Washington Consensus runs counter to Venezuela's current and historic development plan, sowing the oil. According to this popular plan, revenues and comparative advantages in petroleum should be used to support government programs and other sectors of the economy. In this way, oil revenues make ISI a viable path of development in Venezuela. Why this plan is so widely supported is best explained at the domestic level (chapter IV).

Reform has also been hard to sell in a country where people are used to goods and money being doled out by the state and the populace believes the state, and therefore by association the citizen, is rich. Venezuela is a rentier state, political authority rests on the capacity "to extract rents externally from the global environment and subsequently to distribute these revenues internally."⁵³ In 1981, the government employed 24.4 percent of the workforce.⁵⁴ The negative reaction to *El Gran Viraje* was in great part due to the belief by society that such draconian reforms were uncalled for in wealthy Venezuela.

Reforms have not only reduced government employment but have had a negative impact on the bulk of society. In 1996, GDP per capita had dropped below the 1966 level (in 1990 dollars).⁵⁵ It is clear that the economic shock from the 1989 reform is responsible for some of these outcomes.

⁵³ Karl, p. 49.

⁵⁴ Crisp, Brian, *Democratic Institutional Design: The Powers and Incentives of Venezuelan Politicians and Interest Groups*, Stanford University Press, 2000, p. 156.

⁵⁵ Crisp, p. 175.

In summary, domestic factors associated with petroleum and the fact that reform has never been allowed to run its course has resulted in the Washington consensus being rejected as a development model.

3. Oil-Based Economic Independence

Oil was the vehicle used to delay neoliberal economic reforms in the 1980s and is still used to pursue ISI policies in 2001. This natural resource allows Venezuela leeway in its dealings with the international financial system in capital accumulation.

Oil gives Venezuela the advantage of a positive trade balance and large international reserves. In 2000, the trade balance was the largest in Latin America at \$13.9 billion (the next closest and only other positive was Ecuador with \$750 million).⁵⁶ Venezuela also has large international reserves, \$15.9 billion or 14.4 months of imports in 2000.⁵⁷ These reserves and positive trade balance cushion Venezuela's economy from both international lending institutions and private sources of foreign direct investment. Additionally, this surplus in reserves gives Venezuela more flexibility in its overall economic policies, allow it to maintain a band on its currency, and reduced external debt down to \$20.2 billion as of year-end 2000.⁵⁸ All of these aspects reduce the incentives for Venezuela to adopt the new paradigm.

⁵⁶ "Balance preliminary de las economías de América Latina y el Caribe, 2000," Comisión Económica para América Latina y el Caribe (CEPAL), website, <http://www.eclac.cl/publicaciones/DesarrolloEconomico/3/LCG2123/apendiceest.pdf>, [22 Mar 2001].

⁵⁷ "Venezuela, Economic Indicators, 1995-2000", <http://www.latin-focus.com/countries/venezuela/venindex.htm> [12 Feb 2001].

⁵⁸ Ministerio de Finanzas de Venezuela website, <http://www.mf.gov.ve>, [12 Mar 2001].

Notwithstanding this ability, both the Venezuelan financial institutions and government continue to court foreign investors. However, the Chávez administration views world-lending institutions such as the IMF as counterproductive to development but cooperation with the World Bank continues. Involvement with the World Bank continues due to the social nature of its programs.

In summary, "Black Gold" allows Venezuela greater autonomy from the Washington consensus. While it is clear oil permits Venezuela's economic independence it does not explain why economic reform has been pursued and then neglected. Who decided that neoliberal reform was harmful to the interests of Venezuela? These answers are also found at the domestic level.

D. UNITED STATES POLICIES TOWARD VENEZUELA

Washington's policies towards Venezuela could supply a parsimonious explanation for Venezuela's disregard of the United States. This section will determine if the path Venezuela is pursuing is in fact due to unpopular policies on the part the United States.

Since 1980, Venezuela has viewed critically unilateral military actions by the United States in the hemisphere. These include United States military actions in Grenada, Haiti, Panama, and Colombia. This attitude continues as is evidenced by Venezuelan opposition to plan Colombia and cooperation in other aspects of the drug war. In the Millennial Summit of the Americas and the 2000 Latin American Presidential Summit in Brazil, Chávez characterized Plan Colombia as the "Vietnamization" of the

Colombian conflict.⁵⁹ Despite differences of how to proceed relations have stayed cordial around these issues.

The most threatening issues Venezuela sees from its neighbor to the north are in the economic sphere. The United States has tried to use non-tariff barriers (dumping or environmental standards accusations) to restrict Venezuelan gas, steel, and aluminum exports.⁶⁰ In all cases, Venezuela has appealed to the WTO and won. It should be noted that Venezuela also maintains non-tariff barriers on U.S. products. For example oranges and poultry products are forbidden from imports because of "diseases" in the market of origin.

In summary, United States policy towards Venezuela has not changed significantly over the last twenty years. The country is treated as a friend and ally. Venezuela has been able to resolve unpopular or unfair policies and has never suffered "any major military, diplomatic, or economic sanctions by the United States."⁶¹ Notwithstanding their occasional unpopularity, regional and bilateral policies dictated from Washington do not explain Venezuela's current posture in its relations with the United States.

E. INTERNATIONAL CAUSES, NECESSARY OR SUFFICIENT?

The end of the Cold War provides a parsimonious explanation of why Venezuela is pursuing a more diversified foreign policy. However, while definitely a necessary condition it is not sufficient. All Latin American countries were faced with the same situation and many

⁵⁹ Mendoza, Plinio, "Un Foro Con Orejas de Lobo", Analitica.com, <http://www.analitica.com/va/internacionales/opinion/7811628.asp>, [02 Dec 2001].

⁶⁰ Gonzalez, Gustavo, "U.S. Anti-Dumping Law: A Hurdle to Free Trade in Americas", Third World Network, <http://www.twinside.org.sg/title/hurdle.htm>, [11 Dec 2001].

⁶¹ Ewell, p. 7.

diversified allies while maintaining or even strengthening their relationships with the United States.

The desire to extract itself from an asymmetrical relationship with the United States is also a valid argument. The question that arises is why now. The end of the Cold War allows for the shift but does not explain the timing. As noted in chapter two most evidence indicates 1994 as the date Venezuela began its more autonomous foreign policy. This corresponds to the reversal of the neoliberal economic paradigm, not the end of the Cold War.

Venezuela's focus on sowing the oil (ISI) is at odds with the Washington consensus. Caracas sees the new economic model and the FTAA as an economic threat. On the other side, Washington views Venezuela's development model apprehensively. It is clear that the Venezuela economy as currently constituted is highly threatened by neoliberal economic reform. The partner most demanding for reform is the United States so it makes sense that Venezuela would look to other countries for economic growth. So why did Venezuela conduct such a rapid, widespread reform in 1989? It was noted that the pressures for reform come from four sources; world-lending institutions, demonstration effect, to solve economic crisis, and to increase trade. In the Venezuelan case, the two major economic reforms were in response to economic disasters (1989 bankrupt state and 1994 banking crisis). These reforms and the driving domestic forces behind their formation and setback will be examined in the next chapter.

Unpopular United States policies towards Venezuela or Latin America do not offer much explanatory power. It is

true that there have been disputes over interests that are considerable to Venezuela (oil, aluminum, and steel) but these have been peacefully resolved using the WTO. Before 1994, Venezuela was often opposed to United States policies in Latin America yet did not reduce its focus on its largest trading partner. Like so many other international factors, this aspect has some value but is not a causal variable to explain the different path Venezuela is pursuing. This is important because it means the change in the relationship is not a failure of United States policy, but it also makes improving the bilateral relationship more difficult.

Overall, Venezuela has reacted differently towards the United States in the new international environment than the rest of Latin America (except possibly Brazil and Cuba). The end of the Cold War and Venezuela's economic independence explain why Venezuela was able to pursue a more autonomous foreign policy (permits the change) and asymmetrical interdependence explains Venezuela's reasons for wanting to pursue this policy over others. The most important asymmetry is in economics with Venezuela rejecting the Washington consensus in favor of ISI. This chapter argued neoliberal economics was rejected due to economic independence (oil reduced importance on international capital) but were there other motivations? The next chapter will look at why reforms failed and why subsequent politicians have opted for the no-reform route.

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IV. DOMESTIC FACTORS: POLITICS AND THE ECONOMY

The previous chapter established that at the international level Venezuela sees increased economic integration with the United States as a threat to its economic interests. Venezuela's rejection of economic reform and continual pursuit of ISI is due to domestic factors. The two main domestic issues over the last twenty years have been the changes in political parties and a dismal economy. This chapter will discuss these two variables and investigate if foreign policy is subordinated to the needs of the domestic regime. In 1994, President Caldera made a decision to reverse economic reforms to placate interest groups. What led to this policy choice, what groups were pacified, and is this the proximate cause for the shift in foreign policy?

After a brief discussion of the theoretical framework the chapter will give an overview of what has happened in politics since the restoration of democracy in 1958. Venezuela's two prominent political parties quickly began to lose power after the 1993 impeachment of President Pérez. This is also when policies towards the United States began to change. Politics, economics, and actors all aided in the downfall of Pérez.

A political economy approach will be used in this analysis. This method uses the policy preferences of individual actors, how they form into groups that can influence politics, how these groups seek to obtain

policies favorable to them in the context of the existing institutions, and the outcome these groups have on policy.⁶²

There are a number of significant actors in Venezuela including political parties, business capitalists, middle-class professionals, labor unions, the Catholic Church, the military, and neighborhood associations. The interests of the political parties are to consolidate power and maximize profit. Business, professionals, and labor unions all seek to increase their economic utility. The Church and military seek to maintain an influence in society and continue existing as organizations. Neighborhood associations aim to maximize economic benefits for their respective communities.

In his study of 330 government consultative commissions from February 1959 to December 1989, Brian Crisp puts these actors into four broad groups: government officials, representatives of economic interest groups or socioeconomic sectors, representatives of non-economic interest groups or institutions, and undefined participants.⁶³ He argues that by addressing who takes part in these commissions we can gain a greater understanding of who and what, apart from elections, pressure political decisions in Venezuela.⁶⁴ During this 30-year period, 1,856 government officials, 1,016 representatives of economic groups, 195 representatives of noneconomic groups, and 208 unclassifiable participants played a role in government policy via these commissions.⁶⁵ Only 29 members of the

⁶² Rodrick, pp. 42-43.

⁶³ Crisp, p. 106.

⁶⁴ Ibid.

⁶⁵ Crisp, p. 109.

noneconomic group were from the Church and military.⁶⁶ The economic group consists of private capitalists, middle-class professionals, and organized labor. Of these three, only capitalists and labor are organized across the country and are recognized by the government. Only these two groups were granted a legalistic role in influencing government policy.

Based on this evidence, it is clear that historically the most influential groups in the country are the business capitalists, labor, and the political parties. Specifically, these actors are the Federación de Cámaras y Asociaciones de Comercio y Producción (Federation of Chambers and Associations of Commerce and Production/FEDECAMARAS), Confederación de Trabajadores de Venezuela (Confederation of Venezuelan Workers/CTV), Acción Democrática (Democratic Action Party/AD), and Comité de Organización Política Electoral Independiente (Committee of Independent Electoral Political Organization/COPEI). Under AD administrations commissions consisted of 62 percent government officials, 14 percent capitalists, and eight percent labor. Under COPEI the percentage breakdown was 48, 17, and eight respectively.⁶⁷ In this corporatist arrangement, these three groups made up roughly 80 percent of all participants on consultative commissions and governing boards of public-law agencies.⁶⁸

The strategic context that allowed these two nongovernmental groups to attain quasi government status was the Pact of Punto Fijo. Business and labor were given

⁶⁶ Ibid.

⁶⁷ Crisp, p. 115.

⁶⁸ Crisp, p. 141.

legal status in decision-making in this 1958 pact transition to democracy (discussed in more detail in the next section).⁶⁹

The outcome was that consultation with FEDECAMARAS and CTV occurred prior to government action in virtually every area of policy making. These groups were much more than lobbyists; they became an institutionalized part of the government decision-making process. As described in this chapter, the overall effect of this was a rigid government less responsive to voters, enrichment of these interests groups, an asymmetrical distribution of public goods, and economic malaise. All of these issues came to a head in 1989 when President Pérez did not include his own or opposition parties, CTV, FEDECAMARAS, or the public in the economic reform process. This ultimately led to a breakdown in the political system and a reversal of reforms. After Pérez both the Washington consensus and mainstream politicians were discredited. This demise has its roots in the 1958 transition to democracy.

A. MODEL DEMOCRACY OR FORMULA FOR DISASTER?

Venezuela was long considered one of, if not the most, successful democracy in Latin America. From 1958 until 1994 two political parties were able to maintain a hold on politics in the country. This two party system was seen as an exemplar for other countries in the region. The two parties penetrated all aspects of the state and were seen as the only game in town at the national level. Transitions of power were not only bloodless but also peaceful. The 1990s not only saw the rise of ex-coup leader Hugo Chávez to the presidency but also a complete

⁶⁹ Karl, p. 109.

shake up of political parties. The evaporation of the two main parties has come as a shock to many scholars of the region.

The overall collapse of AD and COPEI can be attributed to the fact that both lost the support of an overwhelming majority of the Venezuelan people. It is obvious that without a loyal electorate it is nearly impossible for parties to remain in power. What is not so clear are the factors that were the basis for the loss of devotion to AD and COPEI. This lack of support came about due to four factors: 1) Systemic problems caused by the Pact of Punto Fijo. Specifically, how the relationship set up between the parties and interest group penetration hindered democracy. 2) An increasing perception of corruption within and around the polity. 3) The parties' inability to provide social goods to the electorate and meet the demands of elite actors. 4) Deteriorating economic conditions.

All of the above provided an environment ripe for change. Any politician that was seen as being against the traditional parties, economic reform, and corruption was bound to prosper. Rafael Caldera, one of the founders of the Pact of Punto Fijo, won the elections in 1993 by running as an independent on precisely this platform. The 2000 elections only proved how politically unpopular AD and COPEI had become as neither party was able to endorse a candidate for president. Thus the elections of 1993 saw a sea change in Venezuelan politics and economics. The founding political pact was dead and the neoliberal reforms of 1989 were at a nadir.

1. The Impact Of the Pact of Punto Fijo

Venezuela saw a successful three-year run at democracy from 1945 to 1948 that ended with military intervention. AD partly blamed their loss of power in not having the support of the other parties. The late 1950s again brought an opportunity for another fledgling democracy to form. In order to establish a viable democracy, the three major parties met and signed the Pact of Punto Fijo agreement in October 1958. Although the formal alliance ended with Rafael Caldera's victory in the 1968 election the spirit of the agreement remained the basis for politics for another 25 years.⁷⁰

The agreement bound the signatories, AD, COPEI, and Unión Republicana Democrática (Venezuelan Republican Democratic Party/URD), to respect the results of the 1958 elections, defend the right of the winning party to rule, form a government of national unity, and enact a minimum program of governance. FEDECAMARAS and CTV, established in the late 1940s, also signed the agreement and were thereby institutionalized into the system. This agreement was very relevant for the situation in which the Venezuelan democracy was in at the time. The pact presented a united front within the democratic parties and society against authoritarianism and communism. This agreement influenced Venezuelan politics for the next 40 years. The strengths and weaknesses of the pact in great part helped lead to the downfall of its signers.

⁷⁰ Hellinger, Daniel, *Venezuela: Tarnished Democracy*, Westview Press, 1991, p. 115.

The most beneficial result of the agreement was that strong parties were able to emerge and be consolidated. This occurred in part because of the sharing of power. Even in a loss the loser would have some representation in the government. This guaranteed not only a long life for the parties but access to the great oil coffers of the state in financing both parties. These riches allowed for some of the most costly campaigns in Latin America. In 1988, the two major parties are estimated to have spent \$69 million each on their campaigns.⁷¹ This access to and control over state money also caused popular support for AD and COPEI, with the voter's aim being to receive material benefits for their loyalty. In fact, some individuals were card-carrying members of both parties.

There was also an active effort by the parties to incorporate key groups in society. According to Karl, "Venezuela's democracy was based on public policies and state expenditures aimed at winning the political support of every major organized class or social group."⁷² Oil revenues allowed the political institutions to organize-in party officials, organized labor, and big capital. Business and labor, embodied in FEDECAMARAS and CTV respectively, had privileged access to Venezuelan presidents and used this to influence policy outcomes.⁷³

For example, in 1966 the CTV-controlled Venezuelan Workers' Bank (BTV) was created. Government deposits ranged from 49.6 percent to 89.4 percent of its funding.⁷⁴ "The BTV created a number of enterprises and established a

⁷¹ Hellinger, p. 162.

⁷² Karl, p. 104.

⁷³ Crisp, p. 155.

⁷⁴ Crisp, p. 171.

virtual financial empire under the control of the CTV."⁷⁵ FEDECAMARAS also directly benefited from its association with the government. In 1984, FEDECAMARAS positioned itself as the only capital representative on the National Commission of Costs, Prices, and Salaries. The commission was originally formed to put a ceiling on prices of basic commodities but because of FEDECAMARAS just the opposite happened.⁷⁶

Stringent party discipline was the norm for AD and COPEI. Politics in Venezuela was institutionalized following the Weberian tradition with the parties having professional staffs and a high degree of penetration. Over time both parties made important linkages into civil society including labor unions, student groups, and professional associations; these links were evident in almost every city in the country. The extent of the reach of AD and COPEI was demonstrated by a study which concluded that party members accounted for 50 percent of the population over age 15.

URD shows just how important it was to have a disciplined party. URD garnered 26 percent of the vote in the 1958 presidential elections but less than ten years later was extinct. Kornblithe and Levine argue that Jovita Villalba's personalistic control of URD made organizational consolidation impossible: promising cadres were repeatedly driven out, and opportunities to build a durable party structure were wasted.⁷⁷

⁷⁵ Ibid.

⁷⁶ Crisp, p. 166.

⁷⁷ Kornblith, Miriam and Levine, Daniel H., "Venezuela: The Life and Times of the Party System," in Scott Mainwaring and Timothy R. Scully, eds. *Building Democratic Institutions: Party Systems in Latin America*, Stanford University Press, 1995, p. 47.

The negative aspects of the Pact of Punto Fijo became systemic problems for politics in Venezuela and included the strangle hold by AD and COPEI over politics, the highly structured nature of the parties, and access to state resources for parties, labor, and business. In not addressing these problems through effective political reform, a disenchantment of the electorate and a pessimistic view towards AD and COPEI developed. Although economic and other pressures were intense, the failure of the parties to reform themselves was the main reason for their collapse.

Perhaps the biggest drawback to the Pact of Punto Fijo was its exclusion of the Communist Party and the lack of provisions for integrating new parties and interest groups. This agreement regulated who had access to power (and by control of the state to oil spoils) and who could influence those in power. These rules first established and then reproduced the entitlements of AD, COPEI, organized labor (CTV), and the capitalist class (FEDECAMARAS), solidifying these interests in a new status quo. This limited the voters' choices and privileged the elites associated with the original agreement (FEDECAMARAS and CTV). It was only after limited political reform in the mid 1980s that state and local elections were held for the first time on December 3, 1989. Although some progress was made at the local level national elections continued to be dominated by AD and COPEI until 1993 (Figure 1).

The fact that politicians who did not toe the party line were expelled did not help promote change. AD and COPEI were highly structured and "were therefore more

insulated from their environment and more homogeneous in nature because subunits were under the direct control of hierarchical authority. Internal pluralism and factions were not allowed, giving the party organization a monolithic character."⁷⁸ Both parties were very slow in reacting to external influences and in reforming the parties to make a better democracy. One example of the slowness of reform was the closed list system and control over governor and other local appointments until the late 1980s. Another example was the business as usual attitude after the 27 February 1989 (27F) riots, triggered by a price increase of gasoline decreed by President Pérez.

Because of the unlimited access of the parties to the wealth of the state, political parties became informally privatized and lost their desire to represent the needs of the electorate. The Pact of Punto Fijo created a democracy "designed institutionally to accommodate the domestic business and labor interests that were part of an inward-oriented development strategy."⁷⁹ This ISI strategy supported by FEDECAMARAS and CTV used government funds and protection to assure investment opportunities, profits, jobs, and wages.⁸⁰ Up until 1989, oil booms and economic reforms brought new government policies heavily influenced by and greatly favoring these groups. More money also brought increased public perception of corruption and demands for change. The government budget nearly tripled in the 1973-74 oil boom and doubled in the 1979-81 boom.⁸¹ In 1981 the government employed 24.4 percent of the

⁷⁸ Roberts, Kenneth M., *Deepening Democracy: The Modern Left and Social Movements in Chile and Peru*, Stanford University Press, 1998, p. 46.

⁷⁹ Crisp, p. 172.

⁸⁰ Crisp, p. 155.

⁸¹ Karl, p. 164.

workforce.⁸² As Venezuelan society changed, the polity did not alter political access or the economic development plan despite criticism from the electorate and those not benefiting from oil proceeds.

The Lusinchi (1983-1988) administration tried to quell neoliberal and popular criticism of politics in Venezuela through the Commission for Political Reform (COPRE). COPRE sought to move decision-making to lower levels of government, decrease the role of parties in elections, and increase transparency in the internal workings of the parties.⁸³ The results of this reform were limited but did achieve the direct election of governors, separation of the legislative and presidential ballot, and gave voters the right to indicate preferences among candidates on the lists. However after 1989 opposition victories in key governorships, AD blocked further political change.

The next round of political reforms was undertaken in late 1990 with the Pacto Para la Reforma (Pact for Reform) signed on December 4th of that year. The document called for new electoral laws, the reorganization of the judiciary, the democratization of internal party affairs, and explicitly declared, "that the foundational pact of 1958 had been exhausted."⁸⁴ Unfortunately this legislation ended up being all talk and no action. After the February 4, 1991 (4F) coup attempt reactionary reforms became the mode of operation for the government and the Pacto Para la Reforma was left in the shadows.

⁸² Crisp, p. 170.

⁸³ Crisp, p. 189.

⁸⁴ Navarro, Juan, "In Search of the Lost Pact: Consensus Lost in the 1980s and 1990s," in Jennifer McCoy, Andres Serbin, William C. Smith, and Andres Stambouli, eds. *Venezuelan Democracy Under Stress*, University of Miami, 1995, p. 17.

The fact that the parties recognized the need to form a new agreement about how politics should work in Venezuela shows that there was an awareness of the general dissatisfaction with the current political system. Despite this recognition the parties were unable to implement the changes they agreed were necessary to prevent a breakdown.

The 27F riots were the initial event that focused public scrutiny on politics; this was followed by two coups and the impeachment of President Pérez. A January 1989 poll showed that the most important political reform people expected from the new government was more direct participation.⁸⁵ Just the opposite happened as President Pérez and a key group of technocrats implemented neoliberal economic reforms with little input from the electorate (including elites, politicians, unions, or business). In an August 1993 poll, two-thirds of respondents viewed AD unfavorably and one-half viewed COPEI unfavorably.

By 1994 Venezuela had reached a pivotal crossroads for AD and COPEI. Between them the parties had only garnered 45 percent of the presidential vote (Figure 1). A founding member of COPEI, Rafael Caldera, had abandoned the party and won the presidency as an independent. Felipe Aguero summed up one way for AD and COPEI to recover from this defeat. "AD and COPEI could manage to retain their majority status in the party system but with more open internal politics (e.g., primaries and greater democratization of decision making)."⁸⁶ Despite defeat and

⁸⁵ Myers, David J., "Perceptions of a Stressed Democracy: Inevitable Decay or Foundation for Rebirth?" in Jennifer McCoy, Andres Serbin, William C. Smith, and Andres Stambouli, eds. *Venezuelan Democracy Under Stress*, University of Miami, 1995, p. 124.

⁸⁶ McCoy, Jennifer and Smith, William C., "From Deconsolidation to Reequilibration? Prospects for Democratic Renewal in Venezuela," in Jennifer McCoy, Andres Serbin, William C. Smith, and Andres Stambouli, eds. *Venezuelan*

the obvious need for reform, AD and COPEI continued to conduct politics as usual. Their complete unpopularity with the public was demonstrated in the 1998 elections where together they received only 11 percent of the presidential vote (Figure 1). In fact, it was a disadvantage for a candidate to be backed by AD or COPEI. Former Miss Universe Irene Saez was a favored candidate for the 1998 presidential elections but once she received the backing of COPEI her support evaporated. The last minute agreement by AD and COPEI to join forces to prevent Chávez from being elected further proved to the average Venezuelan that there was no difference between AD and COPEI and they did not have the voters interests as their first priority. The political monopoly of AD and COPEI ended because of their unresponsiveness to political change.

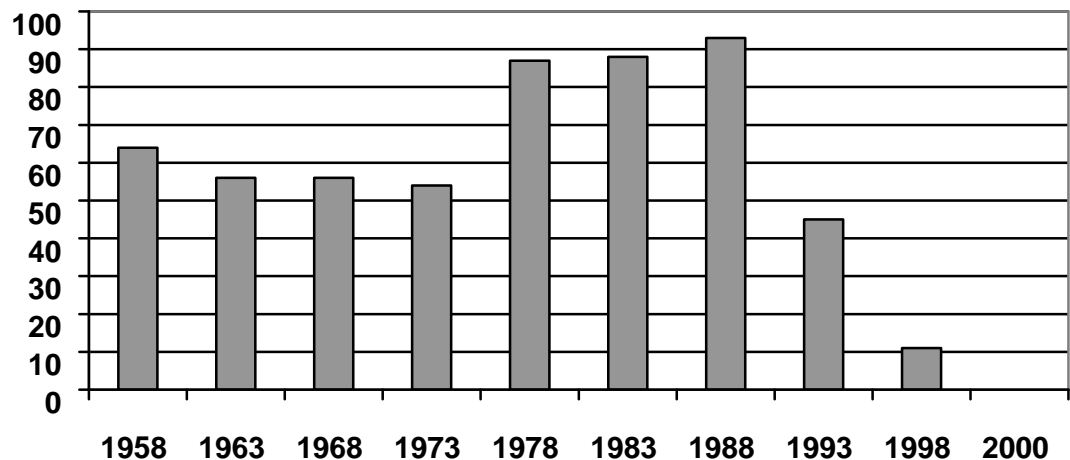


Figure 4. AD and COPEI percentage share of presidential vote 1958-2000

Sources: 1958-1993 data: Crisp, p 45. 1998 & 2000 data: Consejo Nacional Electoral <http://www.cne.gov.ve/>.

2. Corruption

Venezuela is seen as a corrupt state both by the external world and the average Venezuelan citizen. Transparency International has consistently ranked it among the most corrupt countries in Latin America and the world. The 2000 survey ranked Venezuela as the 18th most corrupt country in the world.⁸⁷ In dealing with corruption perceptions are just as important as reality. The definition I will use for corruption is government officials or their allies using state resources for their personal enrichment. Karl notes, "individual businessmen utilized the increased autonomy of the office of the chief executive in order to make the state an instrument of their private interests."⁸⁸ This is not something new in Venezuela, what is new is the public reaction to this graft.

Corruption in Venezuela has a long and colorful history throughout the years of caudillos, dictators, and democratic leaders. Caudillos took control of the government with the specific goal in mind to raid the state treasury. After the rise to power of Rómulo Betancourt in 1945 his administration put on trial more than 100 former government officials resulting in the repayment to the nation of over 400 million bolivars, more than an entire year's national budget for the day.⁸⁹

⁸⁷ "2000 Corruption Perceptions Index," Transparency International, http://www.transparency.org/documents/annual-report/ar_2000/ti2000.html, [01 Jun 2001].

⁸⁸ Karl, p. 146.

⁸⁹ Perdomo, Regelio, "Corruption and Political Crisis," in Louis W. Goodman, Johanna M. Foreman, Moises Naim, Joseph S. Tulchin, and Gary Bland, eds. *Lessons of the Venezuelan Experience*, Woodrow Wilson Center Press, 1995, p. 314.

The end product of the Pact of Punto Fijo was a state that doled out money and contracts to the elites (mostly business and labor) and families associated with party leaders. Even though corruption seemed to become more widespread as time passed, the negative effects were tempered by oil income. Another important aspect of corruption in Venezuela is that there was little trickle-down effect; it was basically a redistribution of wealth to the upper class.

Corruption probably decreased after 1989 due to the dismantling of the highly corrupt Régimen de Cambio Diferenciales (Differential Exchange Rate Regime/RACADI) foreign exchange system (talked about more in detail in the economics section). Despite the possibility that graft was declining public perception and intolerance actually increased. This was most likely due to increased poverty rates, declining real wages, and the end of the oil boom.

It was very hard for Venezuelans to deal with or even understand their declining wages and standard of living in what they perceived to be a wealthy state. It was much easier to make corruption the scapegoat for all their economic woes. On top of this were government pleas to make economic sacrifices in the name of economic reform. Yet at the same time the public continued to hear about corruption scandals in politics and throughout society. While the average Venezuelan could not afford basic medicines, lived in a neighborhood with no piped water, and struggled to find enough to eat, politicians and their friends called on everyone to make sacrifices, but rode in

imported luxury automobiles.⁹⁰ To add insult to injury the cases of corruption that were documented rarely resulted in convictions, with the perpetrator usually ending up in Miami with his money.

Oil was literally the lubricant that allowed corruption to exist and flourish in Venezuela. Until the early 1980s, there was so much wealth in the system money could be siphoned off at various levels with very little if any impact on the economy or working class. The greater part of the additional income remained in the hands of the richest 20 percent, with a small trickle-down effect that benefited only the next quintile.⁹¹ Unfortunately, with the declining oil prices of the 1980s the system came under pressure. Graft continued, but at the expense of the economy and the average Venezuelan.

Controlling corruption was and is seen as the responsibility of the government and was a key justification for the two coups attempts in 1991. This author witnessed the February 4th coup and the demonstrations that followed. The main claim for wanting President Pérez out of office was corruption. In fact, the president acknowledged he was corrupt. I witnessed a speech by Pérez while living in Venezuela. In the funeral of the members of his Honor Guard killed in the attack on the presidential residence he stated, "I know that I am corrupt but this government is corrupt from top to bottom and I can not be blamed for all of the problems." While

⁹⁰ Perdomo, p. 323.

⁹¹ Crisp, Brian, Levine, Daniel H., and Rey, Juan "The Legitimacy Problem," in Jennifer McCoy, Andres Serbin, William C. Smith, and Andres Stambouli, eds. *Venezuelan Democracy Under Stress*, University of Miami, 1995, p. 144.

true, I was shocked to see a sitting president admit to being a crook.

Even one of the most respected institutions in the country, the military, is plagued by corruption. This author has personal experience with the corruption of the Venezuelan Guardia Nacional. They detained me for 12 hours at a checkpoint outside Guanare because I was unwilling to bribe them. As I sat there I saw how they "confiscated" food and other supplies from the vehicles that did not pay them off with money, alcohol, or cigarettes. Hellinger's conclusion is sad but accurate, "Corruption has spread to all levels of society."⁹²

It is not surprising that Rogelio Pérez Perdomo concluded, "Corruption is regarded as one of the most serious threats to the functioning of the Venezuelan state and one of the principal destabilizing factors of the political system."⁹³ In fact, corruption would prove not only to be President Pérez's Achilles heel, but also that of AD and COPEI. Pérez was impeached for embezzlement of funds from the presidential discretionary account and both AD and COPEI were accused of being the overseers of a corrupt system.

3. Consequences Of Not Providing the Goods to Society and the Elites

A responsibility of any government is to provide adequate social policies for the development of the nation and its people. In the words of Janet Kelley, "social policy should ensure the provision of public goods to all

⁹² Hellinger, p. 144.

⁹³ Perdomo, p. 311.

members of society."⁹⁴ The declining price of oil and increasing economic woes of the 1980s led to a decline in the quality of social programs. A 1987 survey found that the wealthy had considerable advantages over the poor in medical attention, housing, and education.⁹⁵ It is no coincidence that these are three areas in which the government is responsible for maintaining access and services.

Despite economic reforms the government continued to pursue statist policies. In 1990, 150,000 new government jobs were added to the already bloated Venezuelan administration. Despite this huge bureaucracy and oil money not one public service (education, health, housing, transportation, etc.) functioned at even a minimum level of adequacy. Not only did this lead to a feeling of exclusion on the part of persons no longer getting goods from these social programs, these failures in social policy also led to a serious weakening of the political system which crafted and implemented it.

It is not the purpose of this section to go into detail about the many failings of the Venezuelan social system. What is important is that neither AD or COPEI were able to resolve the problems with the institutions of the state. This led to growing pessimism about politics in general and especially the ruling parties AD and COPEI.

⁹⁴ Kelly, Janet, "The Question of Inefficiency and Inequality: Social Policy in Venezuela," in Louis W. Goodman, Johanna M. Foreman, Moises Naim, Joseph S. Tulchin, and Gary Bland, eds. *Lessons of the Venezuelan Experience*, Woodrow Wilson Center Press, 1995, p. 284.

⁹⁵ Templeton, Andrew, "The Evolution of Popular Opinion," in Louis W. Goodman, Johanna M. Foreman, Moises Naim, Joseph S. Tulchin, and Gary Bland, eds. *Lessons of the Venezuelan Experience*, Woodrow Wilson Center Press, 1995, p. 93.

President Pérez was able to implement the 1989 reforms because he launched the package without consulting CTV, FEDECAMARAS, or even his own party (AD). Crisp notes, "had Pérez used the old policy-making mechanisms, a neoliberal package would not have been attempted because it lacked a mobilized constituency."⁹⁶ In fact, the 1989 reform was a direct threat to FEDECAMARAS and CTV interests as the government eliminated licenses and bans on 1,900 items accounting for 77 percent of manufactured imports and reduced tariffs.⁹⁷ CTV reacted to this by calling for the first nationwide strike in its history against a government it had helped to elect.⁹⁸

The overall result of the 1989 reform was both Venezuelan elites and masses "were confronted with a renegade president"⁹⁹ who changed the rules of the game in dividing the oil rents.

4. The Economy

In the case of Venezuela the proverbial "lost decade" of economic development has become a lost two decades. Venezuela had a -.1 percent yearly GDP growth rate from 1990 to 1999 while Latin America as a region had a positive three percent growth rate.¹⁰⁰ Venezuela's economic performance from 1980 to the present in general has been very bad. These economic problems are due to government mismanagement of the economy. This is especially important when the public view is the government is responsible for

⁹⁶ Crisp, p. 182.

⁹⁷ Crisp, p. 184

⁹⁸ Karl, p. 181.

⁹⁹ Crisp, p. 185.

¹⁰⁰ "The Slow Road to Reform", Economist.com, 30 Nov 2000, http://www.economist.com/printedition/displayStory.cfm?Story_ID=436346, [02 Dec 2000].

the economy. This section will summarize the major economic problems and then analyze how these affected the majority of Venezuelans.

In general, the rentier paradigm in the Venezuelan economy wasted resources. Oil money allowed the government to subsidize and protect local industries. This resulted in profit rates "among the highest in the world but also a vicious inflationary circle where tariff protection and continuing import substitution became increasingly expensive."¹⁰¹

Many of Venezuela's economic problems can be traced to the 1970s when oil money was available to fund all kinds of government programs and maintain an overvalued exchange rate. After the oil boom ended the government continued to spend as if nothing had changed. The only way to maintain this spending was through borrowing abroad and running government deficits.

The decline in oil prices in the 1980s without a similar decline in government spending resulted in government deficits. These deficits were exacerbated by the RECADI system that was put in place in 1983 for the purpose of maintaining foreign reserves. RECADI determined at what exchange rate individuals and private firms would repay foreign debt. Importers and private firms (with party links) received preferential treatment by a government process that included interest group participation. RECADI was composed of three representatives from the executive, one from CTV, and one from FEDECAMARAS.¹⁰² The resulting corruption was a gigantic

¹⁰¹ Crisp, p. 170.

¹⁰² Crisp, p. 164.

eight billion dollars in fraudulent profits.¹⁰³ "Anyone who could use bolivars to buy dollars at a preferential rate, often illicitly, could simply recycle the dollars back into bolivars at a higher rate and earn a tidy profit in the process."¹⁰⁴

The public sector had the highest rate but even it was overvalued. This resulted in an increase in imports but a decrease in non-oil exports. In 1988 Venezuela, with four percent of Latin America's population accounted for 10 percent of its imports. It is estimated that in 1988 the Bolivar was overvalued by 110 percent.¹⁰⁵ In 1988 Venezuela also saw its first trade deficit since 1978. This deficit allowed Venezuela to largely maintain the standard of living of its citizens. However, sooner or later the debts would have to be paid.

Under Pérez the government attempted to address the economic woes it was facing and implemented a neoliberal economic policy. This consisted of macroeconomic stabilization, trade liberalization, deregulation, privatization, foreign investment promotion, austerity measures, and social programs targeted at the most needy. He abandoned the process of consulting with the political parties, FEDECAMARAS, and CTV because they favored the status quo.

The deep economic crisis of the country, a changing international economic context, and a changing domestic social structure led to the reform. Basically, Pérez inherited a bankrupt state from his predecessor. The

¹⁰³ Crisp, p. 38.

¹⁰⁴ Crisp, p. 34.

¹⁰⁵ Naim, Moises, *Paper Tigers and Minotours: The Politics of Venezuela's Economic Reforms*, Carnegie Endowment Book, 1993, p. 37.

country had a net capital loss of \$17.3 billion between 1983 and 1987. In 1986, 75 percent of government revenue so important for subsidizing CTV and FEDECAMARAS was going to service the public debt.¹⁰⁶ In 1988 government spending increased 9.9 percent while revenue fell 4 percent, resulting in a deficit of 9.4 percent of GDP.¹⁰⁷

In reaction to this, the president cut spending but did it in areas that would not be immediately noticed. At the same time the social safety net for the poorest of the poor was strengthened through things like the milk program for school-aged children. On a macroeconomic scale President Pérez's policies were successful. The government deficit was only 1.1 percent of GDP in 1989 and 1991 and 1992 saw surpluses of .2 and 1.3 percent respectively. GDP growth in 1991 was 9.7 percent, one of the highest in the world. However, the government cutbacks led to schools with teachers but without supplies or water, universities without laboratories, hospitals without medicine, government offices with no phones or typewriters, and public services without maintenance. In 1991, the public service sector spending was only 42 percent of the 1982 level.¹⁰⁸ The impact on the populace was the emergence of a government that was unable to provide basic goods to the public.

The liberalization reforms of 1989 also unleashed inflationary shocks to the economy. The continued inflation affected the middle and lower classes more as they were unable to protect themselves by holding dollar

¹⁰⁶ Crisp, p. 172.

¹⁰⁷ Hellinger, p. 129.

¹⁰⁸ Naim, p. 81.

accounts or other assets like land or houses. In a January 1989 poll, 40 percent named controlling the cost of living as the most important policy area for implementation by the new government.¹⁰⁹ Pérez promised to control inflation but failed. Subsequent administrations also had trouble controlling inflation and in 1996 Venezuela experienced the highest inflation in its history (Figure 2). Mostly due to inflation, wages have steadily declined in real terms since 1978. In 1996, per capita GDP in 1990 U.S. dollars was below the 1966 level!¹¹⁰

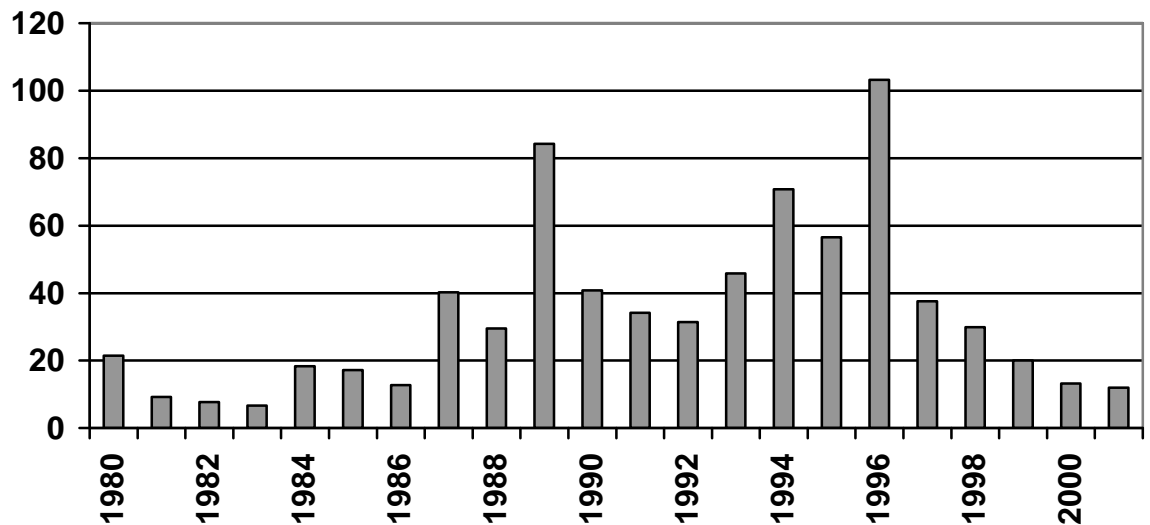


Figure 5. Venezuelan Inflation: 1981-2001
 From: Banco Central de Venezuela,
<http://www.bcv.org.ve/>.

The economic reform initiated in 1989 was long overdue. The reform was necessary not only to allow Venezuela to compete more effectively in the international arena but also to improve the internal health of the

¹⁰⁹ Myers, p. 118.

¹¹⁰ Crisp, p. 175.

economy. Unfortunately, not enough effort was directed towards helping the shrinking middle class in coping with the economic changes. Nor was an attempt made to include those groups that benefited from the reform process into the consultative process. In summary, reform was not wrong; it just needed to be implemented in a way that better cushioned the middle class and allowed constituent input. The results of the reform were a shrinking middle class, growing poverty, social protest, interest group pressure for reversal, and with the 1993 election of Caldera a reversal of reforms.

The frustration with the parties that started during the 1980s was caused by the institutional setup of the political system. Access was severely limited and change was slow. The polity saw the 27F riots as an aberration and politics continued as usual. President Pérez continued with his neoliberal economic reforms and on a macro scale they were successful. However, the social programs were not sufficient and an increasing number of people faced a declining standard of living. Interest groups and even AD were left out of the process. It should come as no surprise that a January 1992 poll showed 82 percent of Venezuelans wanting a reform of political parties.¹¹¹ This reform did not come, but change did.

B. CONCLUSIONS

The inflexibility of the two major parties in the face of the need to reform, increasing perception and intolerance of corruption, a broken social system, a lock

¹¹¹ Burggraaff, Winfield, and Millett, Richard, "More Than Failed Coups: The Crisis in Venezuelan Civil-Military Relations," in eds. Louis W. Goodman, Johanna M. Foreman, Moises Naim, Joseph S. Tulchin, and Gary Bland, eds. *Lessons of the Venezuelan Experience*, Woodrow Wilson Center Press, 1995, p. 69.

out of FEDECAMARAS and CTV in the 1989 reform, and a failing economy were just too much for the people to tolerate. Based on my two-year experience of living in Venezuela from 1990 to 1992 I find Burggraaff's and Millett's assessment of the feelings and frustrations of the average Venezuelan very precise: "Democratic institutions had lost their early dynamism and politics had lost touch with the average person. Politicians were increasingly perceived as parasites on the body politic, lacking any incentive to reform a system that had provided them wealth, status, and power."¹¹² The impact of failure in the political, economic, social, and corruption spheres led to the eventual desertion of supporters from AD and COPEI and a general disenchantment with politics.

This declining support was evident in many empirical studies and polls, and in voter apathy. A 1992 poll showed 44.4 percent of respondents disenchanting with AD and COPEI compared to 21.7 percent in 1989.¹¹³ Abstention rates continue to climb and reached their high in the 2000 presidential elections where more than five out of ten voters did not participate in the presidential elections, the highest in Venezuelan history (Figure 3).

¹¹² Burggraaff and Millett, p. 58.

¹¹³ Crisp, Brian, and Levine, Daniel, H., "Legitimacy, Governability, and Reform in Venezuela," in eds. Louis W. Goodman, Johanna M. Foreman, Moises Naim, Joseph S. Tulchin, and Gary Bland, eds. *Lessons of the Venezuelan Experience*, Woodrow Wilson Center Press, 1995, p. 231.

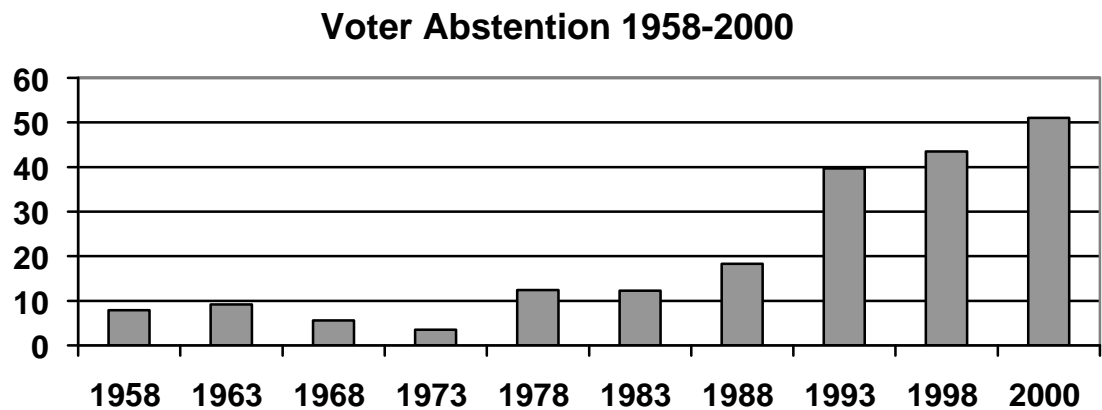


Figure 6. Venezuelan Voter Abstention (percent) in Presidential Elections

From: 1958-1993 data Crisp p.177. 1998 & 2000 data: Consejo Nacional Electoral <http://www.cne.gov.ve/>.

The traditional stranglehold of AD and COPEI over politics began to give way at the national level as parties like Movimiento al Socialismo (MAS) and La Causa R (Radical Cause Party) began to win more seats. In 1988 AD and COPEI had 78 percent of the seats in the legislature.¹¹⁴ The 1993 election saw a defeat in which together the two parties garnered only 45 percent of the presidential vote. As noted previously, this dropped precipitously to 11 percent in 1998 and to zero in 2000. Moreover, in 1993 both the Senate and the Chamber of Deputies (legislature) experienced a huge turnover. Of the 52 seats in the Senate 18 belonged to AD, 15 to COPEI, ten to Convergencia, and nine to MAS. The legislature was composed of 55 seats for AD, 54 for COPEI, 24 for Convergencia, and 26 for MAS.¹¹⁵ AD

¹¹⁴ Crisp and Levine, p. 401.

¹¹⁵ Goodman, Louis W., "Epilogue," in Louis W. Goodman, Johanna M. Foreman, Moises Naim, Joseph S. Tulchin, and Gary Bland, eds. *Lessons of the Venezuelan*

and COPEI saw their combined seats in the legislature drop to 55 percent. The 1998 elections saw further decline with representation by these two parties in the legislature falling to less than one half of that body (89 seats out of 189¹¹⁶, 47 percent). The near death of AD and COPEI was evident in the 2000 elections where neither party ran a presidential candidate and the parties won only 36 seats in the 165 seat National Assembly (22 percent).¹¹⁷

It should come as no surprise that these parties lost favor with the electorate. AD and COPEI did nothing to reform their parties and were blamed for the economic woes, social failures, and rampant corruption in the country.

The fact that Chávez won the 1998 elections had more to do with his platform of rejecting the traditional "oligarchic" parties and stressing change than any other factor. Venezuela would have voted for anyone that promised change and was not associated with AD or COPEI.

Chávez and his MVR (Movimiento Quinta República/Fifth Republic Movement) party are now in a similar situation to what AD and COPEI were in shortly after the Pact of Punto Fijo agreement. Will MVR become a monolithic giant and just fill the void left by AD and COPEI? Will the Chávez administration be able to reverse the corruption, economic sluggishness, and social woes of the country? These questions are currently being played out on the stage of Venezuelan politics and will be looked at in the next chapter.

Experience, Woodrow Wilson Center Press, 1995, Footnote 4. p. 406.

¹¹⁶ "Los Que Ganaron y Los Que Perdieron" El Universal.com, <http://archivo.eluniversal.com/2000/07/31/asamblea.pdf>, [05 Nov 2000].

¹¹⁷ *ibid*

On the economic front Venezuela has experienced economic growth over the last two years in great part due to high oil prices. In contrast, 1999 saw a -4.5 percent shrinkage in GDP. It is estimated year-end 2001 inflation will be less than 12 percent (the lowest since 1983); the 1994-1999 average was 50 percent.¹¹⁸ Chávez has also "declared war" on corruption and is attempting to revitalize funding for social programs through a tripling of non-oil tax revenues. His responses to these challenges seem to be consistent with those of his predecessors.

The last sentence of Gabriel García Márquez's novel *One Hundred Years of Solitude* has a haunting warning appropriate for Venezuelan politicians. It says, "Races condemned to one hundred years of solitude did not have a second opportunity on earth."¹¹⁹ The message is clear; those politicians/parties who do not learn from the mistakes of the past (exclusion) do not have a future.

The previous chapter established that Venezuela has reduced focus on the United States because increased economic integration with the U.S. is seen as a threat. This chapter explained why certain interest groups (politicians, FEDECAMARAS, CTV, the public) see neoliberal reform as harmful to their interests. The simultaneous failure of economic reform and political reform only further discredited the Washington consensus and entrenched the view among politicians and the electorate that sowing the oil is the only alternative for development.

¹¹⁸ "Inflation", *The Economist*, December 9, 2000, p. 116.

¹¹⁹ Márquez, Gabriel, *One Hundred Years of Solitude*, Harper & Row Publishers, 1970, p. 422.

The fatal flaw in Venezuela's political system was its rigidity. In sum, Venezuelan society and world economic conditions changed. A valid attempt at economic reform occurred but without real political reform it did not have much chance for success. The entrenchment of AD and COPEI in politics, and FEDECAMARAS and CTV in the consultative arena, helped those in power restrict the emergence of new groups and ignore the pressure for policy changes. The neoliberal economic reform of 1989 was an extreme attempt to get around the stakeholders in the system. The failure of this reform was due to widespread domestic opposition.

In 1994, President Caldera reestablished the traditional links with FEDECAMARAS and CTV and quickly returned to the model of the state intervening in the economy.¹²⁰

The Washington consensus was rejected due to political and economic breakdown and interest group pressure to maintain the status quo in economic development. The outcome on Venezuela's relations with the United States has been to reduce integration as this poses a direct threat to the status quo of sowing the oil. Using oil rents allows Venezuela to subsidize domestic industries and pursue ISI policies. The results are overpaid workers, high corporate profits, and an elevated role of the state in the economy. Further integration with the United States would threaten noncompetitive domestic and state industries.

With the election of President Chávez Venezuela once again has a chief executive who is willing to ignore political parties (including his own), CTV, and

¹²⁰ Crisp, p. 180.

FEDECAMARAS. Will this more independent policy making ability influence economic policy? Up until the end of 2001, Chávez pursued a dual track strategy of sowing the oil and pursuing limited economic reforms. Why he is seen as such a nemesis to U.S. interests is the focus of the next chapter.

V. THE IMPACT OF PRESIDENT CHÁVEZ ON BILATERAL RELATIONS

The press leads one to believe that the greatest source of contention between the United States and Venezuela is President Hugo Chávez. It is argued his independent and audacious foreign policy represents a radical break with prior administrations.¹²¹ Who is this man and how accurate are these views?

President Chávez was one of the leaders of the first 1992 coup attempt. He was later pardoned by President Caldera and looked to politics to change the system. In 1999, he was elected by the largest margin in Venezuelan history. President Chávez quickly shook up Venezuelan politics by rewriting the constitution, dismissing the congress, and replacing Supreme Court judges. In 2000, Chávez was elected to a six-year term under a new constitution.

It is true that Chávez has been a consistent critic of the United States, representative democracy, and neoliberal economic reform. Critics argue that his power is highly concentrated to the extent that it endangers democracy. This chapter will determine if President Chávez is the causal factor for Venezuela's more independent foreign policy. Three issues will be addressed. First, it will be determined if Chávez is really different from past executives in Venezuela. Second, I will examine the issues of contention between the United States and Venezuela that

¹²¹ "Venezuela's Chavez Says He Wants Democratic Change", CNN.com, 22 Sep 1999, <http://www.cnn.com/WORLD/americas/9909/22/chavez/>, [08 Dec 2001].

are unique to the Chávez administration. Lastly, I will analyze the U.S. view towards President Chávez.

A. CHÁVEZ COMPARED TO PAST PRESIDENTS

The common perception outside Venezuela is that the country has a totally new type of politician with an order of magnitude increase in executive powers. A closer look at history shows this is not the case. In both politics and economics, President Chávez has more in common with his predecessors than differences. There are a few significant departures and these will be discussed. On paper, the new 1999 Constitution strengthened the executive but in reality the power relative to other branches of government is not much different than previous administrations. Who Chávez surrounds himself with and his criticism of the United States are the main difference in the political realm compared to past presidents.

1. Political Comparisons

President Chávez used some of the same political tools as past presidents to get elected. He ran on an anti-reform, anti-party, anti-corruption platform very similar to what his predecessor Rafael Caldera used. Chávez made great use of religious imagery, Simón Bolívar, and continuous public appearances during his aggressive campaign.

This resembled President Pérez's 1973 spirited campaign, "moving at a half run, Pérez swept through the streets of Venezuela, shaking hands, greeting local party functionaries, visiting plazas and radio stations, and leaping mud puddles in the unpaved barrios."¹²² Pérez also

¹²² Karl, p. 116.

used Bolivarian symbols. Perez's aggressive and messianic personal style, his access to enormous financial resources, and his extraordinary popularity resulted in an incredible concentration of power.¹²³ The outcome of Chávez's campaign was almost identical.

Many critics argue Chávez is consolidating power and is putting democracy at risk in doing so. Dennis Jett, former ambassador to Peru, said Chávez is "the greatest threat to democracy in Latin America, with the possible exception of the FARC."¹²⁴ It must be remembered that these "power grabs" have been legal and approved in referendums by the Venezuelan people. Chávez has consolidated power but this is not the first time this has happened in democratic Venezuela.

The most notorious case of presidential dominance in Venezuela is the first term of Pérez. His party had a majority in both houses of the national Congress, all the state congresses, and most municipal governments. He asked for and got delegated authority, and he could issue decrees justified by the restriction of the right to economic liberty. He issued more than 3,000 decrees of one sort or another. Of the bills passed by Congress during his administration, 89 percent were initiated in the executive branch.¹²⁵

Many scholars considered the pre-1999 Venezuelan presidential system weak relative to other countries and argue that the 1999 Constitution concentrates power in the executive. The 1961 Constitution lists 22 powers and duties of the president while the 1999 Constitution has 24. Of these 24, 17 are nearly verbatim from the 1961 document.

¹²³ Karl, p. 123.

¹²⁴ Anderson, Jon L., "The Revolutionary", *The New Yorker*, September 10, 2001, p. 63.

¹²⁵ Crisp, p. 95.

The new executive powers granted in the 1999 Constitution are summarized in table two.

Added Executive Powers
Direct the action of the government
Promote and assign officers after the rank of Colonel/Captain
Decree Law (existed in 1961 Conbsitiution but under emergency powers)
Formulate and direct approval of the National Development Plan
Dissolve the National Assembly in accords with the Constitution.
Call for referendums as provided for in the Constitution
Convoke and preside over a national defense council
Six-year presidential term.
Eligible for one immediate reelection

Table 2. Increased Presidential Powers under the 1999 Constitution
From: "Venezuela: Constitutions",
<http://www.georgetown.edu/pdba/Constitutions/Venezuela/venezuela.html>.

An extended term does increase the power of the president but a careful reading of the 1999 Constitution shows the position is now more accountable because a referendum can be called to remove the president midway through his term.¹²⁶ The ability to run for reelection should also increase presidential accountability to constituents.

The ability to dissolve the National Assembly is a powerful new tool for the head of state. However, many of the powers given to the president are also given to the National Assembly. For example, Chapter 4 Article 71 states that the people, president, or the National Assembly can call for a referendum. The National Assembly is not powerless and in some aspects can control the executive.

¹²⁶ Article 71, Constitución de la República Bolivariana de Venezuela, 1999, <http://www.georgetown.edu/pdba/Constitutions/Venezuela/ven1999.html>, [08 Dec 2001].

National Assembly approval is required for the president to leave the country when absences are greater than five days and for the use of the military overseas. It can also vote out the vice-president by a three-fifths vote and has other broad roles of government oversight.

Decree authority is not new in Venezuela and is the tool that allowed the executive, in practice, to be very strong under pre-1999 constitutions. From 1959 to 1995, the executive branch initiated 84 percent of all legislation passed.¹²⁷ Under the 1961 Constitution, presidents had decree authority in the process of executing a law, states of emergency, when constitutional rights were restricted or suspended, when delegated by congress, and in situations of domestic or foreign conflict. Every president from 1961 to 1999 used some type of decree authority. Most were in the economic and social order realms. The former needed approval by the congress but the latter was granted directly by the 1961 Constitution. Chávez was granted decree authority by the National Assembly to expedite the process of making new laws. This expired on November 13, 2001, at which point a total of 49 laws had been passed.¹²⁸ Again, this is not a new phenomenon in Venezuela and like his predecessors Chávez used decree powers to advance his policies.

Chávez is a shrewd politician and is attempting to consolidate his power just like AD and COPEI did over 40 years ago. Recently, Chávez criticized puntofijismo (the Pact of Punto Fijo) as being "more shameful" than the Gómez

¹²⁷ Crisp, p. 72.

¹²⁸ "Chávez en Positivo y Negativo", El Universal, 02 Dec 2001, <http://www.eluniversal.com/2001/12/02/02102AA.shtml>, [02 Dec 2001].

dictatorship.¹²⁹ Yet the political road Chávez is following looks very similar to those of his "oligarchic" rivals. Chávez is using the mandate he received from the people (57 percent in the 2000 election and highest in Venezuelan history) to dismantle his political foes. Just like the traditional parties used their power to do away with the communist party. The 2000 change in leadership of the CTV via national referendum is another example of Chávez consolidating his power. This looks very similar to the actions AD and COPEI took to monopolize unions, student organizations, and other groups in civil society.

The main difference with Chávez in the political realm is the actors who influence the executive. As shown in the last chapter, in the past presidential persuasion was monopolized by FEDECAMARAS and CTV. Chávez has attacked both groups as being part of the oligarchy and locked them out of the law making process. He has surrounded himself with people he trusts, many of them being active duty and retired military officers. The variation in the advisory circle/interest groups who pressure President Chávez has not affected foreign policy toward the U.S.

It is true that President Chávez is pushing the limits of democracy with his consolidation of power. The purpose of this section is not to defend Chávez's record on democracy but to point out that many past presidents had the control Chávez is now seeking. The changes occurring internally are not fundamental and are not as yet impacting policy towards the United States. It is the same Venezuela

¹²⁹ "Dos Años de Gobierno Bolivariano" Analitica.com, 07 Dec 2000, <http://www.analitica.com/va/sintesis/nacionales/9121433.asp>, [10 Dec 2000].

with the same patronage system, what has changed is who is doling out and receiving the oil spoils.

2. Economic Policies

A major worry among many observers of the 1999 election was what Chávez would do in the economic realm after taking power. During his campaign he had hinted at reversing reforms as had President Caldera. Despite the inflammatory campaign rhetoric no reforms were reversed and not a lot has changed in Venezuela's economy. In fact, Chávez has taken a more neoliberal approach to the economy than Caldera. He established a petroleum stabilization fund to recycle windfall oil profits, upheld contracts with foreign oil companies, opened the gas and petrochemical sectors to private capital, introduced a world-class market oriented telecommunications law, and signed a bilateral tax treaty with the United States. He reacted to low oil prices in 1999 by "enacting a surprisingly orthodox and austere economic policy."¹³⁰ At the same time, Chávez continues the Venezuelan tradition of "sowing the oil" in order to build a self-sustaining, equitable, and stable development path.

The major changes in economic policy are new as of this writing and the outcome is as yet undetermined. In November 2001, 49 laws were passed under the 2000 Special Powers Act. Chávez asked for and received this authority from the National Assembly in order to "legislate matters of national interest for one year."¹³¹ Six broad areas were approved in the legislation where this authority could be

¹³⁰ Weyland, Kurt, "Will Chávez Lose His Luster", Foreign Affairs, Vol. 80 Issue 6, (Nov/Dec 2001) p. 76.

¹³¹ "Venezuela Country Paper", Inter-American Development Bank, <http://www.iadb.org/regions/re3/ve/cpveeng.pdf>, p. 1. [08 Dec 2001].

used: 1) Financial, 2) Economic and social, 3) Infrastructure, transport, and services, 4) Citizen security and justice system, 5) Science and technology, and 6) Organization and functioning of the state.¹³² Many of these new laws deal directly with economic issues, including oil, small and medium businesses, and land reform. The passing of these laws resulted in apprehension within Venezuela and internationally.

Venezuela polled last in a November 2001 Morgan Stanley survey of likely places to invest in Latin America. Respondents cited the dependence of the economy on oil and the recent passage of laws associated with the Special Powers Act for not investing in Venezuela.¹³³ The new Oil Law raised tax rates on foreign oil companies. For heavy crude oil royalties went from one percent to 20-30 percent, the tax rate increased from 34 percent to 50 percent. In light crude the royalty rates increased to 30 percent from 16.7 percent, though taxes fell to 50 percent from 67 percent.¹³⁴

Domestically, criticism and opposition to the new laws abound. State governments are opposed to some laws because it centralizes power with the federal government. In civil society, an alliance of business, labor and opposition groups, opposed the package of laws passed in November 2001.

¹³² "Proyecto de Ley Habilitante", 04 Oct 2000, Analitica.com, <http://www.analitica.com/va/politica/tips/3844739.asp?frameactive=0>, [08 Dec 2001]

¹³³ "Venezuela Ocupa el Ultimo Lugar en Preferencias de los Inversionistas", El-Nacional.com, 27 Nov 2001, <http://128.241.247.116/archive/result.asp?file=d:\www\nacional\home\archive\2001\11\27\pals2.htm&rest=leyes+de+la+Habilitante>, [08 Dec 2001].

¹³⁴ Forero, Juan, "Venezuela's New Oil Law is Seen as a Risk to Growth", New York Times, 04 Dec 2001, <http://www.nytimes.com/2001/12/04/business/worldbusiness/04VENE.html?searchpv=past7days>, [08 Dec 2001].

President Chavez has courted investors. He visited wall street shortly after his election and in November 2001 full page adds were taken out in the New York Times advertising Venezuela as a place to invest and do business. However, the dual track system of sowing the oil and pursing some aspects of the Washington consensus will continue to cause bilateral tensions.

3. Criticism Of The United States

This is one area where Chávez sets himself apart from other Venezuelan presidents. His criticism of the United States runs the spectrum of issues. His anti-U.S. rhetoric has been voluminous. However, most of his actions have been limited to pursuing those issues vital to Venezuela's interests: sovereignty, OPEC unity, a viable economic model, and democracy. With the increased transshipment of narcotics through the country in the 1990s, drugs also became a vital interest.

After 1999 floods that killed an estimated 30,000 Venezuelans, the United States sent two Navy ships loaded with equipment and Sea Bees to help rebuild destroyed areas. Chávez rejected the help stating, "I want to clarify to the world that North American troops are not going to come to Venezuela."¹³⁵ In April 2001, Chávez announced his country would oppose a U.S.-sponsored resolution criticizing China on human rights records.¹³⁶ Prior to this Venezuela had abstained on this issue.

¹³⁵ "Chávez Spurns Flood Relief from U.S. Troops", CNN.com, 13 Jan 2001, <http://www.cnn.com/2000/WORLD/americas/01/13/venezuela.us/index.html>, [06 Mar 2001].

¹³⁶ "Chávez: Venezuela to oppose U.S.-Backed Resolution Condemning China", CNN.com, 16 Apr 2001, <http://www.cnn.com/2001/WORLD/americas/04/16/latin.america.jiang.ap/index.html> [16 Apr 2001].

Despite being headline grabbers, these actions are consistent with Venezuela's concepts of sovereignty and human rights.

In 2000, a big diplomatic uproar was caused by Chávez's trip to Iraq and Libya. He managed to surpass this diplomatic mess in late 2001 by hinting that the U.S. bombings in Afghanistan were not justified and must stop. Later Chávez clarified that his government "has no desire to damage relations with the United States" and lamented he was misunderstood about his comments on Afghanistan.¹³⁷

The Clinton administration largely ignored Chávez's anti-American rhetoric. John Maisto, United States Ambassador to Venezuela under Clinton, stated "watch what Chávez does, not what he says."¹³⁸ The Bush administration has become more critical and in the Afghanistan issue recalled the Venezuelan Ambassador for consultations.

Chávez's criticisms of the United States are well documented but with few exceptions they do not translate to actions. In the cases that do (denying over flight requests, strengthening OPEC allies, opposing U.S. resolutions on human rights and sanctions, and rejecting flood aid) higher order interests are at stake. The exceptions (visits to rogue leaders and Afghanistan statement) seem to have as their purpose to provoke the United States and are not consistent with Venezuela's interests. The goal is to thrust Venezuela into a position of leadership in Latin America and the world and this

¹³⁷ "Chávez: No Tenemos el más Mínimo Interés en Dañar las Relaciones con EE UU", El Nacional.com, 03 Nov 2001, <http://www.el-nacional.com/Articles/Articulo.asp?idSeccion=63&Plantilla=3&id=716> [03 Nov 2001].

¹³⁸ Anderson, p. 71.

cannot be achieved by acquiescing to the United States. Nor can it be reached by being an irresponsible actor on the world stage. Venezuela's more autonomous and independent foreign policy creates a more complicated bilateral relationship and it is more likely the United States will continue to have "problems" with Venezuela.

B. ISSUES OF CONTENTION UNIQUE TO CHÁVEZ

As shown above, President Chávez is not that much different from past Venezuelan Presidents. This section will identify the issues of contention with the United States that are unique to the Chávez administration. Despite all the bad press, the topics that can be attributed to just the current government are the view of the best form of democracy and opposition to Plan Colombia. Issues like OPEC, sovereignty, sanctions, and Cuba go back decades.

President Chávez promotes a view of participative democracy. In a Washington Post interview Chávez stated, "representative democracy had failed Venezuelans because those who had been elected to govern for the people had betrayed them and governed for small elites."¹³⁹ Chávez's model of democracy relies on direct participation from the citizens. These include initiatives, referenda, and recalls that allow citizens to bypass normal channels of lawmaking. For example, a referendum was used to remove the AD head of CTV. Citizens did not call for the election but by their votes did remove the head of CTV.

¹³⁹ "Chávez: End 'Tyranny of the Small Elite", Washington Post, Sunday, October 15, 2000, <http://www.washingtonpost.com/ac2/wp-dyn?pagename=article&node=&contentId=A7305-2000Oct14> [01 Dec 2001].

The 2001 Summit of the Americas showed just how important this view of democracy is. Venezuela did not sign the Declaration of Quebec City and instead reserved its position.¹⁴⁰ This was because the language of the text used "representative democracy".

While this issue is important, it is not the source of much contention between the two countries. For the most part, policy makers in the United States are happy with an electoral notion of democracy and are not worried about promoting more complicated aspects of democracy in Latin America.

Plan Colombia is an issue of contention attributable to Chávez but this is because he was president when it was finally backed by the United States. It should be noted that Brazil is opposed to the militarized aspects of Plan Colombia and it is likely that any Venezuelan executive would have the same reservations President Chávez has about a military build up in neighboring Colombia due to historic and ongoing territorial disputes over the Guarijira Peninsula and Gulf of Venezuela. Drugs are a vital interest to the United States so this issue could set the tone of the bilateral relationship.

Chávez has taken a more active role in OPEC. He is credited for strengthening the cartel and bringing up world oil prices. While visits to his counterparts in Libya and Iraq were controversial a strong OPEC is an established Venezuelan interest.

¹⁴⁰ "Declaration of Quebec City", Summit of the Americas 2001, <http://www.americascanada.org/eventsummit/declarations/declara-e.asp> [01 Oct 2001].

Both inside and outside Venezuela Chávez is attacked for his association with Fidel Castro and Cuba. President Chávez is Castro's greatest ally in the hemisphere and the relationship between the two countries is at a high point. However, Venezuela has been pushing for Cuban inclusion into the OAS for over ten years. It is well to remember that Venezuela has voted opposite to the U.S. on Cuban issues in the United Nations since 1992. The close relationship with Cuba is not new, it is just stronger than in the past.

However, Chávez budding up to Castro, Hussein and Qaddafi is a big departure from past Venezuelan policy. Venezuela opposed U.S. resolutions because they sympathized with the people, not the leaders. Chavez's relationship with rogue leaders is an irritate to the United States.

C. UNITED STATES POLICY TOWARDS PRESIDENT CHÁVEZ

The general, the position towards Venezuela and Latin American as a whole is one of promoting democracy. Because Chávez was democratically elected the United States has less room to criticize him and almost no room to call for his removal. As former Ambassador John Maisto stated, "at the end of the day the Venezuelan people democratically elected him [Chávez] to govern the country."¹⁴¹

Vital U.S. interests at stake in our relationship with Venezuela are oil (including OPEC) and drugs. Peripheral issues are the type of democracy in Venezuela, economics, and relations with rogue leaders. Chavez has not directly threatened the core U.S. interests of access to inexpensive oil or cooperation in the Drug War.

¹⁴¹ "Around the Beltway", Washington Times, 25 Jan 2001, <http://www.washingtontimes.com>, [01 Aug 2001].

Venezuela's oil is very important for the United States. Venezuela provides 15 percent of American oil imports and has the largest proven reserves outside the Middle East. The late 2001 increased tension in the Middle East and war in Afghanistan makes Venezuela, a short four-day tanker trip from the United States, an even more attractive alternative for American policy makers. Because of this, Washington will continue to tolerate an outspoken Chávez to ensure access to this vital natural resource. However, if Chávez were to take action that would put access to oil in doubt the U.S. would react strongly.

Under the Bush administration the U.S. is paying more attention to words of Chávez. Prior to late 2001 the United States had failed to take any significant action against Chávez for his words and actions against U.S. interests. The strongest censure under the Clinton administration was due to the Iraq visit. U.S. State Department spokesman Richard Boucher stated it was "particularly galling that the first visit to Iraq by a head of state is by a democratically elected leader."¹⁴² After Chávez compared the U.S. bombing raids in Afghanistan to the terrorist acts committed on the United States on September 11th Washington recalled the Venezuelan Ambassador for consultations. This is not surprising now that terrorism has become a vital interest in U.S. relations with all countries.

D. SUMMARY

Individuals are important in international relations. Chávez himself stated that he has "an ideological

¹⁴² "Chavez Provokes U.S. Scorn With His Arrival in Iraq", CNN.com, 10 Aug 2000, <http://www.cnn.com/2000/WORLD/meast/08/10/iraq.chavez/index.html>, [01 Sep 2000].

conviction" about his policies.¹⁴³ Inserting Venezuela as an actor on the world stage, pushing for a multipolar world, and developing Venezuela by sowing the oil are not new ideas. The differences from past Venezuelan heads of state is that Chávez is more flamboyant and uses different interest groups in society (poor and military) to achieve his goals.

President Chávez is not an important causal factor for the changing bilateral relationship between the United States and Venezuela. Chávez is an aggravation for the U.S. and these irritations are added causes for the distancing but are not the main causes. The U.S. can tolerate Chavez's friendliness to rogue regimes, view of democracy, and opposition to Plan Colombia. What will not be tolerated are threats to vital U.S. interests of oil and drugs. Chávez is a point of friction and has transformed the direction of bilateral relations, however this change is not as fundamental as those changes at the domestic and international levels.

¹⁴³ Anderson, p. 79.

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VI. CONCLUSIONS

In the search for elements to explain Venezuela's changing foreign policy towards the United States, the use of a single approach does not provide for accurate conclusions. From a holistic perspective, the study of this case from three levels of analysis—international, domestic, and individual—provides fuller explanations. This concluding chapter will weigh the relative importance of each variable and the contribution each makes in explaining Venezuela's new international strategy.

This new strategy began with the 1994 administration of President Rafael Caldera. He reversed economic reforms, made Brazil the top foreign policy issue, and began an expansion of Venezuelan allies. At the same time, other Latin American countries were embracing both economic reform and further integration with the United States.

A. INTERNATIONAL LEVEL EXPLANATIONS

In this project, I examined four possible international explanations for the shift in Venezuela's policy towards the United States: the end of the Cold War, asymmetrical interdependence, rejection of the Washington consensus, and U.S. policy toward Venezuela.

The strategic context for Venezuela changed significantly after the end of the Cold War. This new environment allowed Venezuela to pursue other allies. This variable does a good job in explaining what allowed Venezuela to shift its interests but does not explain why this shift was considered necessary. The timing of this

variable also leaves its causality in question; the Cold War ended five years before Venezuela began to reduce attention on the U.S.

Asymmetrical interdependence offers another explanation of why Venezuela is pursuing a more independent path. The decisions that Venezuela has taken closely resemble the options outlined by Holsti for a country in this type of relationship. However, as noted previously most of Latin America is in an asymmetrical relationship with the United States but have not chosen Venezuela's approach. The fact that Venezuela returned to ISI in 1994 makes its economic relationship with the United States more asymmetrical.

The increased international emphasis on free market economics provides further explanation in this case. With the return to a policy of ISI, the Washington consensus directly threatened Venezuela's development path of sowing the oil. Venezuela's protection of domestic industries runs counter to a strategy of further integration with the United States. Oil wealth allows rejection of neoliberal economics to be a viable option.

I found that examining unpopular U.S. policies towards Venezuela did not add explanatory power to the case. United States policy has remained constant and is not a causal variable in explaining Venezuela's changing attitude towards the U.S. after 1994.

In summary, at the international level the end of the Cold War made expansion of allies and markets an option. Asymmetrical interdependence was deepened by Venezuela's 1994 return to ISI. The rejection of the Washington

consensus explains why Venezuela is not seeking to deepen integration with the United States as most of its peers are doing. Venezuela began a textbook reform process in 1989 yet five years later it was dead. The source of opposition to these reforms resides at the domestic level.

B. DOMESTIC LEVEL EXPLANATIONS

A domestic level analysis provides an explanation for why Venezuela sees the Washington consensus as a threat. The political system in Venezuela evolved into a vehicle by which politicians, FEDECAMARAS, and CTV were the main beneficiaries of oil rents. In order to maintain these benefits, elite actors did not expand the political system to new interest groups or allow competition at the national level. Due to the rigidity of the founding political pact, corruption, inability of the government to meet social demands, and a failing economy, the political model collapsed. Unfortunately, this breakdown occurred during an economic reform that locked out key actors from input into the process. Both traditional parties and the Washington consensus were completely discredited. After the reforming President Pérez was impeached in 1993, traditional groups quickly reestablished the status quo of ISI to maximize their benefits.

C. INDIVIDUAL LEVEL EXPLANATIONS

The impact on bilateral relations by President Chávez is minimal despite the high visibility of his criticisms of the United States. The only significant policy divergence from past executives is his promotion of participative democracy and budding up to dictators. His powers are greater than past executives but in practice they are not

much different. Chávez is a point of friction and has transformed the direction of bilateral relations, however this change is not as fundamental as those at the international level.

In summary, each level of analysis contributes to the distancing relation but the new international environment is the primary causal factor. At the international level, the end of the Cold War and the failure of the Washington consensus in Venezuela have distanced the bilateral relationship. The end of the Cold War gave Venezuela the ability to get out of its asymmetrical relationship with the U.S. and the failure of neoliberal economics gave it a reason to revert to the country's historic model of development. The domestic economy and politics are important because they explain why Venezuela can afford to diversify and pursue ISI (oil resources) and why sowing the oil is seen as the workable development model.

D. WHAT TO LOOK FOR IN THE FUTURE

Venezuela has shown that it can adapt to changing economic conditions although this usually only occurs as a last resort (i.e. 1983 devaluation, 1989 economic reforms). Because of the history ISI in Venezuela this model will most likely be pursued until its exhaustion. At this point, some neoliberal reforms will be implemented. This cycle has occurred a number of times in Venezuela shadowing the rise and fall of oil prices. One positive aspect of this cycle is that many reforms manage to live on in the face of a return to ISI.

The economic arena is the main area to watch to predict Venezuela's future relations with the United

States. High oil prices will allow Venezuela to maintain its current policy, while low oil prices will bring it closer to the Washington consensus. A floating exchange rate (reduces protection of domestic industries) and/or removal of non-tariff barriers would be positive signs. Indications of distancing would be more restrictive policies on U.S. imports, Venezuela joining MERCOSUR, and an increase in economic disagreements.

E. RECOMMENDATIONS FOR U.S. POLICY MAKERS

Washington must not attribute shifts in the current bilateral relationship to President Chávez. Venezuela's choice to sow the oil as economic policy is the fundamental reason for the distancing from the United States, so this needs to be acknowledged to reduce friction and increase cooperation. Washington should remember that it too protects many aspects of the U.S. economy from foreign competition and should continue to extend the same privilege to Venezuela. Economic disagreements must continue to be resolved in WTO forums so they are decided on the merits of the case and not on which country can bring more power to bear on the issue.

Patience is the most import tool the United States can exercise. Sowing the oil has not proved to be a viable path for development in Venezuela. Even with high oil prices, the inefficiencies of the model will eventually become evident and economic reforms will be implemented. A return to neoliberal economics will come, returning the United States to Venezuela's number one foreign policy priority.

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